Affinity Water

Taking care of your water now and for the future

Annual Report and Financial Statements
for the year ended 31 March 2026

Affinity Water Limited
(Registered Number 02546950)

Welcome to the Affinity Water
Annual Report & Financial Statements 2025/26

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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.

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.

Our purpose

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

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 do the right thing

We are customer focused

We work as one team

Our long-term ambitions

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.

Annual Performance
At A Glance

Financial Highlights

Revenue (£m)	Operating profit (£m)	Net loss after tax (£m)	Our Regulatory Capital Value (RCV)	Gearing ratio (%)	Cash flow (£m)
£438.3m	£74.7m	£6.2m	£2.10bn	69.1%	£(1.0)m
FY25: £363.6m	FY25: £33.2m	FY25: £16.8m	FY25: £1.92bn	FY25: 77.5%	FY25: £(32.6)m

Operational Highlights

Daily amount of drinking water supplied	Customers served	Household properties connected	Length of mains net work	Number of water treatment works	Number of employees
965Ml/d	4.06m	1.53m	17,070km	91	1,552
FY25: 943Ml/d	FY25: 3.99m	FY25: 1.52m	FY25: 17,042km	FY25: 90	FY25: 1,462

ESG Highlights

Scope 1 & 2 carbon emissions tCO_2e	Employee engagement score	Publicly available open data sets[1]
44,339	8.2	5
FY25: 51,096 tCO_2e	FY25: 8.1	FY25: 1

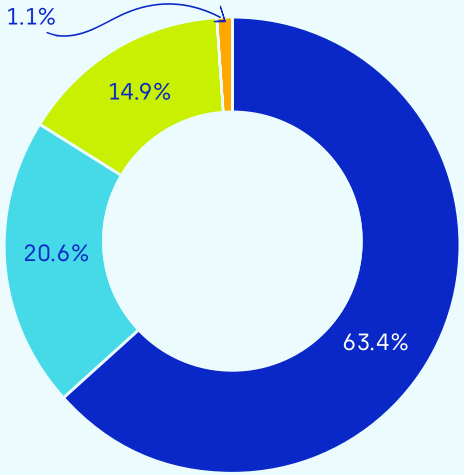

A Hatfield resident's garden blooms thanks to practical water-saving measures

1 Open data sets are data freely available to everyone to access, use and share. Data is essential for developing insight, making informed decisions and improving services, increasing transparency, increasing efficiency, enhancing customer experience, and stimulating innovation.

The communities
we serve

Our supply area is unique, containing around 10% of the world's rare chalk streams, which face pressures from climate change, growing water demand, pollution and historic changes to river systems. It is also one of the most densely populated and economically active regions in the UK.

Household Ownership Status

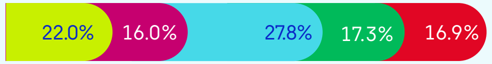


- Owner occupier
- Private rental
- Social rental
- Other

Metered properties

- Metered
- Unmetered

Regional population age profile

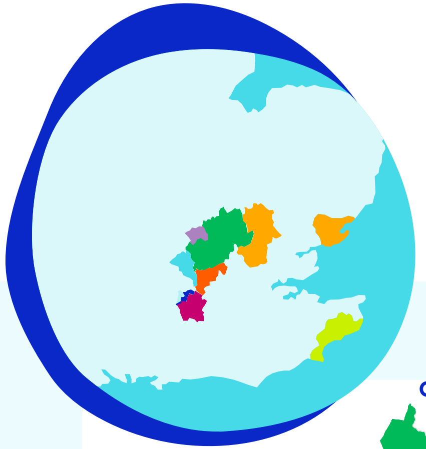


- Aged 0-17
- Aged 18-30
- Aged 31-50
- Aged 51-64
- Aged 65+

We serve a diverse customer base with a wide range of needs, supplying both densely populated urban areas and more rural communities.

Population growth, increasing demand and the need to protect the environment mean we work closely with our customers to support more efficient water use.

Average consumption in our area is 157 litres per person per day, compared with a national average of 137 litres, and we are focusing on reducing this through smart metering, behaviour-change programmes and tariff trials.



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

Our focus areas to 2030

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 aim is to provide efficient and affordable services in both the short and long term.

Our five-year and 25-year plans set out how we will meet these challenges and expectations by employing innovation and efficiency, and developing partnerships to deliver an excellent service for our customers and communities.

Our long-term delivery strategy ('LTDS') outlines our 25-year plan to fulfil our purpose and vision to enhance the service we provide, meeting present and future customer needs. To achieve this, we've established customer-driven goals summarised in our Strategic Direction Statement, reflecting the views of our customers and stakeholders.

Environment

Leave the environment in a sustainable and measurably-improved state.

- End unsustainable abstraction from chalk groundwater sources.
- Achieve Net Zero for operational emissions and all carbon by 2050, recognising changes in sector assumptions since 2021 and the need to work with regulators to prioritise decarbonisation this AMP.
- Deliver a net gain in Natural Capital.

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.

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.

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.

Operational performance
for year 1 summary

Our Business plan for 2025-30 is ambitious with some stretching targets. Over the next five years, we will deliver a £2.3 billion investment programme, designed to help us continue providing high-quality, sustainable and affordable water services.

Price Control Deliverables ('PCDs')

PCDs are regulatory tools designed to ensure water companies meet specific improvement targets, funded through enhancement expenditure allowances.

PCDs were introduced by Ofwat, as part of the PR24 determination, as a mechanism to ensure specific large programmes of work are delivered as funded. The PCDs have enhanced regulatory oversight to protect against non-delivery and ensure timely completion. Should a company fail to deliver, or delivery is delayed, funding can be returned to customers.

Our Ambition Statement	Key Outcome	Type	Performance Commitment	Reward/Penalty	Measure	2025/26 Actual	2025/6 Target	2029/30 Target	Target met?
Leave the environment in a sustainable and measurably-improved state	Environment	Common	Leakage	Both	% Reduction from 2019-20 baseline	19.7%	21.3%	31.0%	Not met
			Per capita consumption	Both	% Reduction from 2019-20 baseline	-0.1%	3.6%	12.9%	Not met
			Business demand	Both	% Reduction from 2019-20 baseline	8.0%	9.8%	11%	Not met
			Biodiversity	Both	Biodiversity units per hectare	0.11	0	1.73	Met
			Operational GHG emissions	Both	% Reduction in greenhouse gas emissions	2.18%	3.22%	1.30%	Not met
			Discharge permit compliance	Penalty only	% Compliance	100%	100%	100%	Met
			Serious pollution incidents	Penalty only	Number of Cat 1 & 2 incidents	0	0	0	Met
Be prepared for change and resilient to shocks and stresses	Resilience	Common	Mains repairs	Both	Number of repairs per 1,000km	140.2	140.3	132	Met
			Unplanned outage	Both	% Of peak week production capacity	1.14%	2.20%	2.14%	Met
Deliver what our customers need ensuring affordability for all	Customers	Common	C-MeX	Both	Score / 100	60.06 (13th)	68.85	n/a	Not met
			Water supply interruptions	Both	Time per property per year	00:04:35	00:05:00	00:05:00	Met
			Compliance risk index	Penalty only	Numerical score (Deadband of 1.83)	3.17	0	0	Not Met
			D-MeX	Both	Score/100	84.97 (5th)	82.60	n/a	Met
			Customer contacts about water quality	Both	Number of contacts per 1,000 population	0.72	0.67	0.67	Not met
			BR-MeX	Both	Score /100	80.84 (4th)	80.00	n/a	Met
		Bespoke	Average time properties experience low pressure	Penalty only	Average time per property that is below 15m per year	03:09:27	01:51:13	01:43:43	Not met

Operational performance
for year 1 summary continued

Customers

To help customers, we have committed to the following:

Smart meters

- Commitment: Install 400,000 smart meters to help customers control their usage.
- Outcome: We exceeded our year 1 smart meter installation target, fitting over 103,000 smart meters

Water quality improvements

- Commitment: Deliver a programme of water quality treatment upgrades to improve levels of treatment and resilience.
- Outcome: We completed over 200km of mains flushing as part of our Distribution Operation Maintenance Strategy, removing aluminium deposits and improving pipe condition. To treat the Per and Polyfluoroalkyl Substances ('PFAS') risk, we replaced Granular Activated Carbon ('GAC') media and made a full change of the ion exchange resin in use at two of our sites.

Tariff trials

- Commitment: Develop and deliver more tariff trials, building on the WaterSave rising block tariff trial (2023–2025).
- Outcome: We'll strive to develop fairer, more affordable ways of charging while encouraging water-efficient use through price incentives.

Customer support

- Commitment: Provide support for customers struggling to pay, including flexible payment plans aligned to income.
- Outcome: We'll help around 17,000 customers through payment matching and will expand our LIFT social tariff to around 150,000 customers.

AMP8 Performance Commitments and Deliverables

Performance Commitment	
C-MeX (score) Actual: 60.06 Target: 68.85	This customer-focused performance commitment measures direct customer feedback on satisfaction with our services. Our score of 60.06 placed us 13th overall in the companies league table. Service placed us 14th (55.59) and experience 12th (69.02). Further improvement is needed. We have redesigned our bills for clarity, we are working to improve resolution times and make 'customer journeys' easier by updating our online self-service portal. In June, we launched our customer vulnerability strategy where we have set out a wide range of ambitions and initiatives, all of which will help us to understand customer needs and support customers who may need extra help.

Performance Commitment	
D-MeX (score) Actual: 84.97 Target: 82.60	D-MeX is the measure of levels of service provided to developers. The index score is made up of both a qualitative and a quantitative elements. Our D-MeX performance during 2025/26 has been positive with our score placing us 5th in the industry league table. This represents a strong improvement on 2024/25, where we finished the year in 10th position. To support consistent performance against levels of service metrics and D-MeX quantitative measures, we have introduced a range of system and management enhancements throughout the year. These improvements have helped ensure that key milestones within our customers' journeys are delivered within agreed timescales. We have also remained responsive to changing market trends in construction delivery routes, including increased Self-Lay Provider (SLP) and NAV activity, ensuring our teams are structured to effectively support all customer types.

Operational performance
for year 1 summary continued

AMP8 Performance Commitments and Deliverables continued

Performance Commitment	
Compliance risk index Actual: 3.17 Target: 0 (Deadband 1.83)	The Compliance Risk Index ('CRI') is a measure to inform the risk arising from treated water compliance failures. In 2025, our drinking water quality remained high overall. While we did not meet our CRI target of 0 and recorded a score above the deadband of 1.83, this was largely driven by a single coliform detection in a final water sample at Iver WTW, our largest works, in December. This isolated incident accounted for over 90% of our total CRI score for the year. Excluding this event, performance was strong, reflecting the underlying quality of our supplies. Looking ahead, we expect our CRI performance to return to below the deadband.
BR-MeX (score) Actual: 80.84 Target: 80.00	BR-MeX is a mechanism designed to incentivise water companies (wholesalers) to provide business customers and retailers with excellent levels of service. Our 2025-26 BR-MeX score was 80.84, placing us fourth in the industry table. Our overall performance has been supported by strong results in both retailer satisfaction and market performance metrics, reflected in R-MeX and MPF scores of 88.75 and 89.26 respectively. As B-MeX accounts for 50% of the overall BR-MeX score, performance in this area has the greatest influence on our overall position. We continue to focus on improving the handling and resolution of requests to strengthen our overall BR-MeX performance.

Performance Commitment	
Water supply interruptions (average minutes per property) Actual: 00:04:35 Target: 00:05:00	Water supply interruptions is the average number of minutes lost per property for the whole customer base for interruptions that lasted three hours or more. Performance during the 2025/26 reporting year was strong, with service maintained in line with our target of 5 minutes, despite challenging weather conditions. We continued to respond rapidly to events and remained focused on maintaining strong asset health, while optimising our network and assets. Through this, we have been able to mitigate and reduce the duration of interruptions experienced, delivering a consistently high level of service for our customers.
Customer contacts about water quality (number/ thousand people) Actual: 0.72 Target: 0.67	The number of customers who contact us regarding the quality of their drinking water because it may taste, smell or look different. After a relatively normal start to the year for contacts from customers regarding aesthetic issues with their water supply, we saw a sharp increase in contacts over the summer. This was a result of two factors both relating to climatic conditions. The first was the long dry period between February and August. This caused a significant increase in soil moisture deficit which resulted in more burst mains, in turn leading to more contacts regarding discolouration and aeration. The second factor was the high temperatures led to warmer water in supply which resulted in more contacts regarding taste and odour issues.

Performance Commitment	
Average time properties experience low pressure Actual: 03:09:27 Target: 01:51:13	This is a measure of the average time that a property is at risk of experiencing low pressure in their mains water supply. Our performance has not achieved our target as the hot, dry weather increased demand which had a significant impact on this metric. The most significant issue affecting our performance was due to increased usage at a commercial site in the Wembley area, which subsequently impacted water pressure. This commercial site contributed to 23% of total time recorded at the Critical Point logger in the year. We are taking actions to resolve this issue.

Operational performance
for year 1 summary continued

Communities

Public value and early careers

- Commitment: Implement our public value approach and progress our public value ambitions, such as being a good local employer.
- Outcome: In the year, we developed an early careers strategy to build a sustainable, future-ready workforce, strengthening relationships with schools, colleges and communities and raising awareness of careers in the water industry.

River enhancement and biodiversity

- Commitment: Increase river enhancement opportunities to support biodiversity and flood management within the Colne Valley.
- Outcome: We'll work with the Environment Agency to define over 30 river restoration projects across 19 chalk streams within our supply area.

Community and charity support

- Commitment: Supporting local communities and charities through funding and promoting staff volunteer days.
- Outcome: In the year, we committed over 160 volunteer days and provided £650,000 to local projects focused on biodiversity, conservation and supporting vulnerable customers in vulnerable circumstances. These partnerships have improved our understanding of local needs.

Public access sites and visitor experience

- Commitment: Improve our visitors' experience at our public access sites by enhancing facilities such as catering and water sports through third parties and partners.
- Outcome: We'll improve accessibility at our lakes & leisure sites, enhance natural habitats with biodiversity partners, and work alongside Groundworks South to responsibly manage vegetation to improve appearance and access to sites.

AMP8 Performance Commitments and Deliverables

PCD Category	PCD	
Smart Metering	**New installations** Actual: 8,107 Target: 17,857	The Smart Metering Programme is part of the Water Resources Management Plan ('WRMP') investment area. Smart meters will assist us in reducing leakage and demand within both household and non-household properties. The new installations relate to the number of AMI meters installed at both household and non-household premises that, prior to such installation, were unmetered. Replacement of meters, which includes meters replaced with new meters on a like-for-like basis. Activity was prioritised towards household meter upgrades, which reduced delivery of new installations. During AMP7, we focused on more complex new installations following the completion of a large scale selective metering programme, where the majority of meters had already been installed. Moving into AMP8, activity started slowly, and we experienced challenges in securing new installations. In addition, delays to our internal metering programme contributed to lower delivery numbers. We are currently developing a recovery plan for new installs and expect performance to improve, with numbers picking up from Year 2 onwards.
	Household meter upgrades Actual: 114,277 Target: 73,713	During the year we performed against our target for household meter upgrades. Following a successful 'Pathfinder' trial, we chose to accelerate the household meter upgrades workstream. This means most of the programme will be completed by the end of Year 3. As a result, demand management and leakage activities will become more effective.
	Non-household meter upgrades Actual: 1,584 Target: 2,650	Our NHH upgrade programme started later than planned due to challenges with the works management system, resulting in only a small number of completions in Year 1. These issues have now been addressed, and we are fully operational for Year 2, with confidence in achieving the annual targets set.
	Meter replacements Actual: 115,900 Target: 82,483	Due to the lower volume of new installations, we prioritised meter replacements to ensure overall delivery was maintained. This focused approach enabled us to exceed our replacement target. In Year 2, we will rebalance activity across programmes while continuing to meet replacement targets.

Operational performance
for year 1 summary continued

Resilience

Infrastructure resilience and Connect 2050

- Commitment: In 2026/27, we'll allocate £1.51 million to address infrastructure single-point failure risks.
- Outcome: We will continue the design and construction of our Connect 2050 schemes, which will enhance supply resilience and support our Water Resources Management Planning ('WRMP') and Water Industry National Environment Programme ('WINEP') sustainability reduction plans.

Network calming and leakage reduction

- Commitment: Increase network calming to reduce leakage and pipe replacement costs.
- Outcome: In the year, we identified 30 high-risk locations, establishing the foundations for targeted and effective transient monitoring activity. We have procured permanent transient loggers at these priority sites and are enhancing our monitoring capabilities.

Grand Union Canal Transfer scheme

- Commitment: Collaborate with our partners, communities and stakeholders to develop the Grand Union Canal Transfer scheme.
- Outcome: This will deliver a sustainable and reliable water supply for the future and reduce our reliance on other water sources, including unique chalk stream habitats.

Water demand reduction

- Commitment: Reduce total water demand by 50 million litres a day (4.5% in total demand) in 2030 from a 2025 baseline.
- Outcome: By undertaking household and non-household water efficiency visits, fixing internal plumbing losses and driving behaviour change with smart meter customers to reduce use.

AMP8 Performance Commitments and Deliverables

Performance Commitment	
Mains repairs – due to bursts (number per 1,000km mains) Actual: 140.2 Target: 140.3	This performance commitment is the number of repairs to burst mains per thousand kilometres of the company's entire treated water main network. It includes both proactive and reactive repairs to burst mains from which water is lost. Performance this year has been significantly impacted by environmental conditions; a long, hot, dry summer and a freeze-thaw event in the winter. Despite this however, we have achieved our PC target due to a low level of burst repairs outside of these periods. We continue to invest in the proactive replacement of mains pipes, adopt new ways of working to improve our performance and we are ahead on mains replacements.
Unplanned outage (%) Actual: 1.14% Target: 2.20%	Unplanned outage is the temporary loss of maximum sustainable production capacity. It is the difference between the available production capacity and the sustainable maximum. This performance was achieved despite challenging conditions, including prolonged seasonal demand and a significant freeze-thaw event, which reduced system resilience and operating headroom.

PCD Category	PCD	
Demand management	**Water demand savings** Actual: 5.74 Target: 8.29	We are empowering our customers to reduce their water consumption, by understanding usage, which helps protect our precious resources and creating a sustainable future. Our delivery plan focuses on reducing consumption across both Household (HH) and Non-Household (NHH). Affinity Water is currently below the Year 1 Ml/d target, primarily due to the behaviour change campaign not reaching the anticipated number of customers, together with the Flow Regulator rollout alongside smart meters only transitioning into business as usual in October 2025. Looking ahead, if delivery continues in line with the current trajectory, Affinity Water is forecast to recover the shortfall and complete the AMP8 above target.

PCD Category	PCD	
WRMP supply (WAFU)	**WAFU Benefit** Actual: 10 Target: 10	The Connect 2050 programme is a strategic initiative designed to ensure the long-term resilience of the water supply network in the face of evolving challenges. It assesses existing infrastructure and proposes necessary enhancements over the next 25 years, with costs allocated between the Water Resources Management Plan (WRMP) and resilience measures. The Year 1 target, 10Ml/d at Perivale, has been achieved in 2025/26 upon completion of the transfer of responsibility for the new asset from HS2.
Trunk mains and distribution mains	**Mains renewals** Actual: 41.9 Target: 39.0	This focuses on the renewal of our trunk mains including 15.9km of trunk mains identified as being in poor condition. The objectives are to maintain the current burst rate on trunk mains and to support performance commitments related to interruptions to supply (I2S) and the Compliance Risk Index (CRI). In 2025-26 the programmes have delivered 41.9km of mains renewals, outperforming year 1 target by 2.70km. Our plan is to be ahead of our cumulative renewals PCD target each year and in AMP8 deliver a total of 260.27km.

Operational performance
for year 1 summary continued

Environment

Operational carbon reduction

- Commitment: Reduce operational carbon emissions by investing in energy efficiency.
- Outcome: In the year, we trialled lower carbon treatment solutions involving coconut GAC, switched the heating fuel at our largest site, and continued our transition to electric vehicles.

Nature-based solutions and catchment work

- Commitment: Fund and deliver nature-based solutions and catchment improvements.
- Outcome: We funded 13 projects through our 'Water in the Landscape' scheme and supported the delivery of over 3,000 hectares of catchment measures through our Functioning Soils scheme. We completed three river restoration schemes and plan to deliver over 30 projects by 2030.

Abstraction reduction and infrastructure investment

- Commitment: Deliver a programme to reduce abstraction from chalk aquifers by 35 million litres per day in the next five years.
- Outcome: We are investing in large-scale trunk main and booster pumping station schemes for bulk water transfer

Leakage reduction

- Commitment: Invest £95 million for leakage reduction to achieve a 31% overall reduction, progressing towards a 50% reduction by 2050.
- Outcome: We'll invest in new technologies such as satellite leak detection to find and fix leaks faster, as well as expanding our pressure management programme to help prevent new leaks occurring and reduce volumes lost from existing leaks.

AMP8 Performance Commitments and Deliverables

Performance Commitment	
Leakage (% reduction) Actual: 19.7% Target: 21.3%	This measure is reported as a percentage reduction in a three-year average Ml/d of leakage against a baseline average level of 2019/20. We have fallen slightly short of our targeted 21.3% reduction in the three-year rolling average. The summer saw prolonged dry conditions causing ground movement driving an increased level of mains bursts and leakage outbreak. We have increased resources, and our recovery plans are delivering improvements.
Per capita consumption ('PCC') Actual: -0.1% Target: 3.6%	The performance commitment aims to incentivise us to help customers reduce their water consumption. 2025/26 was the driest and warmest year on record, we therefore saw PCC increase by 0.61/p/d from the prior year. Customers behavioural pattern have also significant changes since 2019/20 base year and water usage continues to remain higher when targets were set. Despite this, we remain committed to reducing PCC through a programme of established and new initiatives, both operational and behavioural. Alongside our existing water efficiency campaigns and services, we continue to look for innovative ways to educate on the need for reducing consumption. Our new customer campaign programme 'Keep Life Flowing' to help customers and understand how small changes in their everyday routines can make a big difference to their water use, Our smart metering programme has enabled our customers to keep track of their water usage.
Business demand Actual: 8.0% Target: 9.8%	The performance commitment aims to incentivise us to help our business customers reduce their water consumption. 2025/26 was the driest and warmest year on record. As a result, we have seen our business demand increase by 5.1 Ml/d from 2024/25. This impacted our performance and we didn't achieve our target. We are continuing to develop and expand our business demand services, seeing an increasing number of businesses requesting our services (since the beginning of the AMP). We are continuing to see this year's weather affect our Non-Household customers' demand.

Performance Commitment	
Operational GHG emissions Actual: 2.18% Target: 3.22%	This commitment aims to reduce greenhouse gas emissions and help us deliver on our Net Zero goal. This year's performance resulted in a reduction in emissions compared to last year. This was a significant achievement, spite this we have not met the target. Prolonged high demand in the summer increased our electricity and chemical consumption, generating more greenhouse gas emissions. This, combined with a slower than planned transition to electric vehicles meant reductions were not enough to achieve the target.
Discharge permit compliance Actual: 100% Target: 100%	This is our percentage compliance against our discharge permits at our production sites. This is one of our environmental obligations and holds us to account for any non-compliance. We achieved 100% compliance in 2026, demonstrating our continued strong environmental performance and commitment to ensuring our operations are compliant with Environmental Permitting Regulations.
Serious pollution incidents Actual: 0 Target: 0	The number of category 1 and 2 incidents. Serious incidents are categorised as having extensive, persistent or significant impact on the environment. We have an obligation to the environment to minimise any negative impacts of our operations. We are proud to be reporting zero category 1 and 2 incidents in the year.
Biodiversity Actual: 0.11 Target: 0	The increase in biodiversity is measured as units per 100km2 of our supply area using an ecology calculator to reduce extinction risk and increase resilience to climatic and water resource changes while enhancing ecosystems in our area. Through the planting of hedgerows as part of our WINEP environmental enhancement commitments, we have created 0.11 units of biodiversity across five sites, as hedgerow units.

Strategic Report

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Chair's introduction

Mike Brown CBE MVO
Company Chair

We are now operating in a world of increasing volatility across both climate and regulatory issues. The recent 'Well Adapted UK' report from the Climate Change Committee sets out the growing risks to the water environment from climate change. It also makes it clear that the UK is ill-prepared to manage these risks and that urgent action is needed.

Climate experts such as Professor Ed Hawkins at Reading University, reacted to recent heat spikes by saying that: "Today's heat events are emerging earlier, intensifying faster and occurring across a much warmer background climate". The period from March to May 2025 was the driest for England since 1893 with overall demand for water across the country up by 220 mega litres per day.

Climate volatility does not just affect demand for water. Leakage outbreaks which were once largely associated with winter freeze-thaw events, can now occur during prolonged dry weather in summer months. Combined with peak demand in hot weather these conditions can pose significant challenges to our operational teams in maintaining secure supplies to customers.

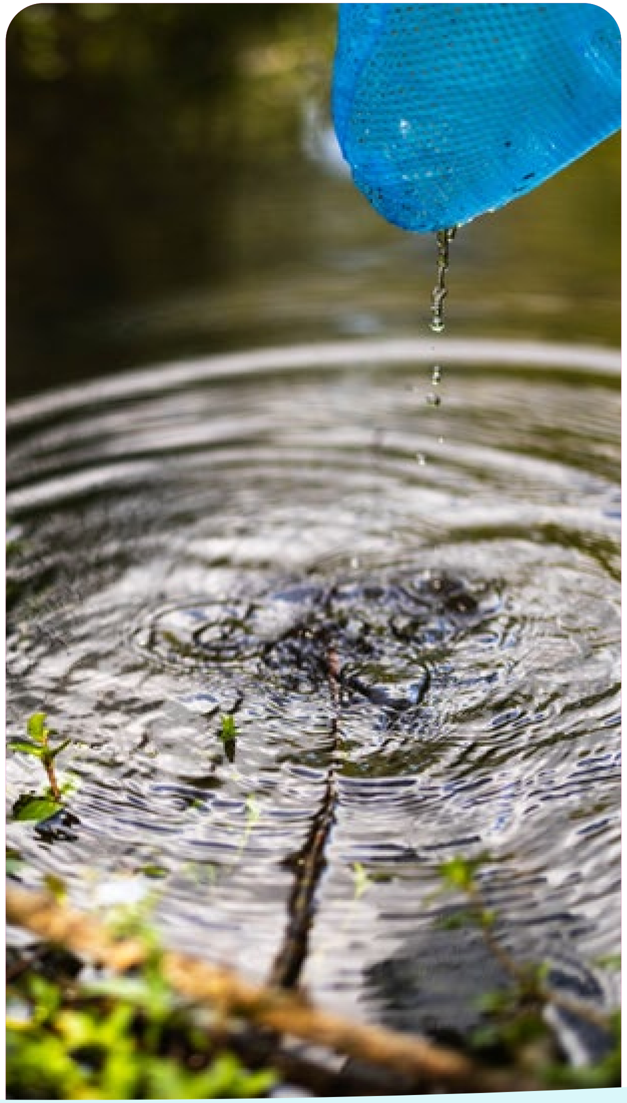
Nevertheless, alongside our largest ever investment programme, our teams are becoming increasingly adept at managing through this volatility and prepare well for forecast extreme weather conditions. When sudden hot or cold weather is predicted, we identify the likely operational risks, proactively deploy additional resources to ensure that critical assets remain operational and take timely action to maintain reliable supplies to customers. A critical part of our preparation involves early communication with customers, businesses and elected representatives to make sure that they are aware of the risks and also clearly understand how we are managing those risks.

In the peak demand period we experienced around the May bank holiday weekend 2026, the preparations we put in place based on last year's experience, made sure that only very localised interruptions to supply took place, caused mainly by isolated operational issues, which were managed as part of normal operations.

Some of these challenges were anticipated in our business plan, and having achieved a positive outcome from the last price review process and prepared well, we are on track for delivery of a much larger investment programme, which will put Affinity Water in a strong position for the future.

We have made an excellent start to our capital and WINEP programmes with all our key milestones for the first year met: smart metering install and mains replacement are both ahead of schedule, our first river restoration project has been completed and the resilience investment, to keep our customers supplied with water whilst delivering abstraction reductions, is making good progress.

Our performance in water supply and production is broadly on track. Year one targets for interruptions to supply and unplanned outages have been met with some excellent work in difficult weather conditions, although a single failure late in the year at one treatment works means that we have missed our CRI target.



Chair's introduction continued

We recognise that we have more to do in making it easy for our customers to deal with us and in helping them play a part in reducing water consumption in our region, as we have not met our C-MeX and per capita consumption targets.

The Chief Executive's Operating Review on page 15 sets out more detail about our operating performance and capital delivery.

Climate volatility is not the only external uncertainty we need to manage. The governance and regulation of our sector is set to go through the biggest change since privatisation as the government moves to implement the changes outlined in its White Paper earlier this year. These changes are to be implemented across a period of significant political instability and at a time when the reputation of the industry makes it very vulnerable to hostile policy interventions.

Our approach to managing those uncertainties is to ensure that we are closely involved with the reform process and fully engaged, representing our views and pressing the case for outcomes which protect investment and improve water resource management. Being closely involved does not just mean that we can try to influence outcomes, but crucially also means that we understand the potential implications for Affinity Water and can plan for those.

The government's programme to reform the water industry is progressing more slowly than expected although we were reassured to see the inclusion of a Clean Water Bill in the Kings Speech in April. The appointment of Dame Julia Black as chair of transition is a positive sign that government seeks a fresh start in regulation but it is disappointing that we have yet to see the formal publication of the transition plan and strategic policy guidance for Ofwat.

Defra has developed the reform programme through collaboration and engagement with the water industry and other stakeholders and is to be congratulated for the way it has gone about this. Collaboration may make the process take a little longer but significantly increases the probability of a positive outcome.

We will be pressing government to devote as much attention to driving investment in water security as it has done to the water environment. Our supply area is critical to the government's growth agenda – there are over 125 data centres planned in the Affinity Water region – and this growth makes the achievement of supply demand balance in the long term even more of a challenge. We need to see a clearer water resources strategy from government, changes in the planning system to speed up the delivery of critical infrastructure and the enactment of long promised legislative measures to promote water efficient housing. Our policy analysis and proposals for change: "Running Dry" was published earlier this year.

In September last year, our then Chief Executive Keith Haslett, informed the board that he was to take up the position of group CEO of Pennon plc and he left Affinity Water at the end of the 2025/26 financial year. Affinity Water's performance improved significantly during the three years of Keith's leadership and he brought direction, clarity and stability to the company. He left us with the thanks of the board and on a personal level I am most grateful for his support during my first year as chair.

I would like to thank all our colleagues at Affinity Water for their continued dedication in serving our customers.

Mike Brown CBE MVO
Company Chair
30 June 2026

We routinely advise on saving water at home with eco settings on appliances

CEO's introduction

Mark Garth
Chief Executive Officer

I am delighted to join Affinity Water and to lead an organisation with such an essential role in the lives of the millions of customers we serve.

I have joined the company at an important time for the water sector, when customer expectations are rightly high and we have a very significant investment programme to deliver over the remainder of this AMP, to maintain resilient water supplies for our region.

Although I only took up the role towards the end of June 2026, it is very clear that the company is in excellent shape with a committed workforce passionate about delivering for our customers and the environment. We have a strong leadership team which, during Keith Haslett's tenure as CEO, has delivered significant improvements in performance. We also have a very supportive Board and investors who have shown their confidence and commitment with a recent injection of fresh equity.

The future strategic direction of the sector and the way it is regulated and governed is currently being reformed as the government moves to implement the changes originally proposed by the Independent Water Commission and more recently set out in the White Paper. We are very supportive of the strategic vision set out by government and will work collaboratively with DEFRA and the rest of the sector to help shape that into practical reality. In the meantime, we will also work constructively with the existing regulators – Ofwat, the Drinking Water Inspectorate and the Environment Agency – as they face into the challenge of delivering their existing regulatory obligations while helping to design the new system.

Performance for customers

There has been strong performance in some areas and challenges in others. The five-minute target for interruptions to supply has been delivered despite some challenging weather conditions and the company has had its best ever year on unplanned outages. Ofwat recognises Affinity Water as a leading performer in both these areas. We also met targets for environmental performance with 100% compliance with discharge permits and no serious pollution incidents.

The in-year leakage target has been missed, following a challenging year which included freeze-thaw events in the winter combined with prolonged dry weather and heatwaves in the summer. We are implementing targeted recovery actions, including increased leakage detection, improved monitoring using smart metering and data analytics, and faster repair of bursts, which are expected to improve performance.

Targets for customer service (C-MeX) and reducing both household and business demand have also not been met. A number of initiatives, such as a new customer website and app are being delivered and a digital transformation programme will make it significantly easier for customers to manage their billing. At an operational level, we are also prioritising the most visible leaks which we know frustrate customers.

The demographics of Affinity Water's supply zone mean that its customers have amongst the highest household demand in the country. In the last year, the prolonged period of hot weather meant that we saw demand levels exceed those experienced during the pandemic period. Delivery of the smart metering programme will be critical to demand reduction in both household and business consumption and Affinity Water has delivered 110% of its first-year target. The early months of 2026/27 have also seen an improved C-MeX performance.

A single failure late in the year meant that the CRI target was not met. Despite this, Affinity Water remains a leading performer in the sector on water quality. Remedial action on that site is underway and performance in the new business year has been positive

Positive financial performance

Revenue has increased to £438.3 million (2025: £363.6 million) and operating profit has also increased to £74.7 million (£33.2 million). Regulatory Capital Value has grown to £2.09 billion (2025: £1.92 billion), reflecting the level of investment over the last 12 months.

Investment in resilience and the environment

The delivery plan for AMP8 involves £2.3 billion of total expenditure with a £900 million capital enhancement programme. We have made a strong start to the delivery of this programme: all year-one milestones have been met and the supply chain is fully engaged on key enhancement projects. The company has delivered over 18.5km of distribution and trunk mains and are forecasted to outperform our PCD target by 10% in year one by completing a total of 41.9km of renewed mains replacement. Work is underway on the investment project at Iver water treatment works. The WINEP programme is progressing well and remains on track to meet year one milestones and deliverables agreed with the Environment Agency.

The smart metering programme continues to demonstrate strong and sustained progress. The year one target of 103,000 meters installed has been met, enabling the receipt of over one million meter reads each day.

I am very much looking forward to getting to know the company better and to working with colleagues at all levels to maintain and of course improve our delivery for customers and the environment. Although Affinity Water is a strong performer in many areas, there are others, such as C-MeX and leakage where focus will be needed to improve our performance.

Mark Garth
Chief Executive Officer

Industry Reform and Transition:
Reform of the water industry

The government programme to reform the planning, regulation, governance and delivery of the water sector continues to make progress and Affinity Water remains closely engaged with the development of the plans.

The first two stages - governance changes and the Water Special Measures Act ('WSMA') – were passed early in this parliament and have now taken effect. WSMA introduced prohibitions on the payment of Executive bonuses when companies have failed to meet acceptable standards of environmental performance, have breached a primary licence duty or have been found guilty of a criminal offence. It also introduced measures to promote the involvement of customers in decision making. Affinity Water has fully complied with the provisions on Executive pay and is on track to introduce comprehensive measures to broaden our engagement with customers and give them a real say in material decisions.

The final stage commenced with the work of the Independent Water Commission ('IWC'), which reported in July 2025. The IWC report highlighted a lack of government strategy, fragmented regulation and misaligned planning processes as being the fundamental flaws in the current system. It proposed: a government-led national water strategy, covering both water resources and the water environment, the creation of a new, combined, economic, environment and quality regulator to replace Ofwat, parts of the Environment Agency and the Drinking Water Inspectorate and the consolidation of the five main planning frameworks into two. It also proposed a new model of supervisory regulation, drawing in part on the approach taken in financial services to replace the efficient cost benchmarking and econometric approach taken by Ofwat.

The IWC report was followed by a White Paper setting out the government's broad support for most of the report's recommendations and signalling its intention to introduce primary legislation, where needed, to introduce the changes. The King's Speech in April this year included proposed legislation in the form of a Clean Water Bill which will implement the proposals in the White Paper. We expect the bill to be published in the Autumn of this year alongside a transition plan which will set out how the government intends to manage the migration to the new structures and processes.

Despite the delays to publication of the transition plan, government has confirmed that the PR29 periodic review and accompanying planning process for water resources, the environment and drainage and waste water will proceed largely according to the existing timescale, but will be accompanied by the progressive introduction of supervisory regulation. In parallel, the new combined regulator will be developed, initially in shadow format and given formal status once the necessary legislation has been passed. As an interim measure, a new role of chair of transition has been created to oversee the transition process. Dame Julia Black has been appointed to this role.

Clearly, reform on this scale brings significant implementation risks. The sector is running the existing business planning process while developing a new one alongside it. This poses a major resource challenge to government, regulators and companies over the next four years. It is positive that government has shown a real willingness to collaborate with the industry and other stakeholders in the development of the transition plan and other parts of the reform process. Affinity Water has been an active participant in industry workshops convened by government and will continue to be very much engaged. An internal group, led by the Director of Regulation and Strategy, has conducted detailed analysis of every stage of the reform process, highlighting the risks and opportunities for Affinity Water.

On-site technicians use the latest tools to monitor and maintain infrastructure

Our business model
Regulators and water cycle

The water industry operates within a complex and evolving regulatory landscape. Water companies must comply with laws, standards and policies set by Government and independent regulators, each responsible for protecting customers, securing resilient supplies and safeguarding the environment.

Our biggest challenge is delivering water to a growing population while meeting ambitious abstraction-reduction targets as part of our environmental objectives.

We've been supplying water to our local communities for **more than 170 years.**

Department for Environment Food & Rural Affairs

Defra

Ofwat

DWI

The Environment Agency

CCW

Our water cycle
Bringing our water together – from source to tap

1.

Sustainably taking water from our rivers and aquifers (achieving sustainable abstraction reductions)

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 water demand and the effects of climate change.

We are developing new ways to bring water in from neighbouring areas so we can reduce the amount we take from chalk groundwater.

Read more about our strategic resource option Grand Union Canal on page 21.

2.

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

Because we draw water from different groundwater and surface sources, its quality varies, so we tailor our treatment to provide the highest-quality water possible. After we treat water, we pump it into large storage reservoirs or water towers before it travels through our 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 flows into the sewerage network, where providers treat it before returning it to 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 business model
External factors and direction

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.

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.

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

Stakeholder engagement
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 on **stakeholder engagement** on **page 62**

UN SDGs – Our alignment with the UN Sustainable Development Goals

Read more on **UN SDGs** on **pages 25 and 26**

shape our strategic direction...

A sustainable water supply for this century and beyond
We plan and invest for the long term, using innovative technology, bringing 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 model
Creating value for our stakeholders

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.

…this creates 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 supporting them 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.

View of the River Misbourne in our North region

Our business model
Our planning horizon

We plan for the short, medium, and long term, to provide high-quality drinking water, protect the environment, and serve our diverse communities now and in the future.

To create and prioritise our plans, we consider:

1. the material issues, both in terms of stakeholder interest and their impact on our ability to create value;
2. our assessment of risks and opportunities; and
3. our ESG commitments, including our Net Zero transition plan;

Customers
Deliver what our customers need, ensuring affordability for all.

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

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

Environment
Leave the environment in a sustainable and measurably improved state.

Short-term planning

We set annual operational and financial targets, and report on them each year to track progress against the five-year goals set out in our 2025–30 business plan.

Medium-term planning

We received Ofwat's final determination on our business plan for the current five-year period (2025–30) in December 2024 and have just completed the first year of plan delivery in AMP8.

This plan 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 LTDS which outlines the public value we provide through our services.

The shape of the next business planning period is yet to be confirmed by government as it decides on the best way to implement proposed reforms to regulation and planning for the sector.

Long-term planning

Affinity Water's Strategic Direction Statement ('SDS') 2025–50 outlines a long-term plan to deliver high-quality, sustainable water services. Centred on four key pillars – environment, resilience, customer service, and community value – the strategy aims to secure resources for future generations while minimising environmental impact.

Additionally, we also plan for water resources for the next 50 years thorough our WRMP and set out how we would respond to a drought in our Drought Management Plan.

Our long-term plan for bringing water into the areas we serve

Grand Union Canal

Moving Water Together

Population growth, climate change and the demand for water are putting significant pressure on our resources and our local environment. We are taking action by developing four Strategic Resource Options ('SROs'), a significant part of our WRMP, designed to secure sustainable water supplies for future generations.

One of our SROs is the Grand Union Canal Transfer (**www.guctransfer.co.uk**). This is a vital new scheme to bring water from the Midlands to the South East, one of the country's most water-stressed regions, by repurposing the historic Coventry, Oxford and Grand Union Canals.

It's a joint water transfer project between two water companies, Affinity Water and Severn Trent, and the Canal & River Trust, the charity that owns and cares for the canal network in England & Wales. By using existing infrastructure, it will enable a sustainable solution to water distribution and help preserve and enhance the canal network for communities, wildlife and future generations.

We began our early development work in 2019 to understand how the scheme would work, and the infrastructure required to facilitate it. In 2024, our WRMP reaffirmed the need for the scheme, and the Secretary of State for the Environment, Food and Rural Affairs determined that the scheme is of national significance and directed it into the Development Consent Order ('DCO') regime.

This year, we submitted a DCO application notification to the Planning Inspectorate, a vital step for nationally significant infrastructure projects.

We held two public consultations in autumn 2024 and spring 2026, to ensure we keep our communities, businesses and canal users informed, heard and engaged throughout the DCO process.

In response to feedback from our 2024 Phase One Public Consultation, we undertook a trial on the Llangollen Canal in summer 2025, to explore how water flow impacts navigation along the canal. With the help of a group of volunteers, the team examined how the canal's flow rate influenced the navigation of a deep draft narrowboat, canoes and a paddle board. Our trial demonstrated that transferring water down the canal at a similar rate we would use for the scheme, had no significant effect on navigation. You can read more about the trial and its outcomes **here.**

In spring 2026, we progressed to our Phase Two Public Consultation which concluded in early April. We listened and responded to our communities at 14 in-person stakeholder engagement events, and an online forum.

The project is progressing at a pace, and we will continue to engage with our stakeholders and communities as we further develop the scheme's design before our DCO application submission in summer 2027. The construction and commissioning of the scheme is expected to be complete by 2033, when the scheme will become operational.

Our approach to sustainability:
managing through climate and nature challenges and uncertainties

Our sustainability strategy is centred around our core purpose: to provide high-quality drinking water and take care of the environment for our diverse communities – now and in the future. We focus on four priorities – environment, customer, communities and resilience – where we can create public value and deliver sustainable service.

In the face of climate uncertainty, economic volatility and social pressures, we integrate ESG practices into core operations to build resilience and prioritise the environment and our customers. During 2025/26, we integrated climate and nature-related strategy, governance, risks and opportunities, and performance monitoring into decision making at Affinity Water, see page 31.

Our approach integrates sustainability into strategy, operations and decision making across the business. One of our biggest challenges – and opportunities – is managing the trade-offs between environmental protection and operational impact. Reducing abstraction is critical to safeguarding the chalk streams and aquifers, which can raise energy use. That's why we take a whole-system approach – combining leakage reduction, solar generation and long-term planning. Over time, these actions reduce costs, strengthen resilience and improve environmental and financial performance.

Investing in water resilience in the region

With increasing climate change uncertainty, more extreme and unpredictable weather patterns are driving the need for more resilient water supply to meet customer demand. More frequent and intense temperature spikes in recent summers have resulted in unprecedented peak demand and have also caused leakage break out.

Growing peaks in demand have identified some areas where investment in additional storage would be beneficial - our new Chaul End reservoir is a great example. The project presented several challenges. The existing site has a critical role in the supply network with many homes and businesses that depend on it. The design of each new connection to our existing network and each stage of the construction had to be meticulously planned, involving extensive collaboration across the company to get it over the line.

The new 20Ml reservoir increases storage capacity, critical in periods of high demand, and provides increased resilience with either cell being able to operate in isolation. As climate change and population growth continue to put pressure on water resources, projects like this are vital to ensuring customers receive a reliable and high-quality supply of water.

Enabling sustainability reductions

Huge pressure already exists on our water resources from population growth and more extreme weather driven by climate change. The EA's national forecasts are that England could face a 5 billion litre-a-day supply-demand deficit in public water supply by 2055. The government's growth agenda and the need to reduce abstraction from sensitive chalk streams means the delivery of our new water resource options and interconnections is critical to provide resilience for customers. To enable this, planning and regulatory processes need to be joined up, efficient and effective. The critical nature of water infrastructure on the growth and environmental agendas is not always recognised. For example, a recent 12-month delay on a Compulsory Purchase Order ('CPO') meant that we were unable to deliver a key AMP7 booster project to replace water resource volumes lost to abstraction reductions on schedule. Without the boosters, our security of supply is compromised and we cannot transition to the higher level of service in our WRMP or move forward with further sustainability reductions required by the EA. The water industry needs government and regulators to enable the sector to deliver a safe, resilient, and sustainable service for customers. Industry reform must deliver a strong strategic direction, simplified planning and effective scrutiny at pace to build trust and achieve water security across the system.

Managing emerging risks from PFAS forever chemicals

Through our catchment and sampling work we have seen emerging and increasing risks to water quality from PFAS (forever chemicals). These chemicals are widely used in a huge range of consumer and industrial products and can be found increasingly in our environment including water.

Several of our sources have already been impacted by PFAS pollution and there is growing political and environmental interest on the issue. Although we have in-depth knowledge and experience of PFAS, more research, particularly on the impact to human health, is needed. The uncertainty around the extent and potential impacts of PFAS pollution could see tighter limits and the need for additional treatment at many more sites.

The emerging risks from PFAS come with significant costs, with £73 million in our current business plan for PFAS treatment alone and an additional £95 million ringfenced by Ofwat in anticipation of new PFAS risks that emerge during 2025–2030. Emerging risks are particularly difficult to plan for especially where there is uncertainty around regulation or water quality limits within an AMP.

In response to increased interest on PFAS and to improve transparency we will be releasing sampling data from across our area as part of our open data project later this year. We hope this will support the work of scientists, journalist, campaigners and regulators on PFAS as well as reassuring customers that all the water we supply meets the DWI's wholesomeness standards. Customer information on water quality, including PFAS can be found on our website, **affinitywater.co.uk/pfas**

Our approach to sustainability:
managing through climate and nature challenges and uncertainties continued

External guidelines we follow

We use ESG frameworks to guide decision making, and ESG reporting to communicate our progress on ESG issues to stakeholders. The ESG reporting landscape includes a wide range of regulations, standards, frameworks, metrics and methodologies, some of which are required internationally or at the EU level, while others are UK specific or voluntary.

Mandatory	Requirement	How it was met
The Task Force on Climate-related Financial Disclosures ('TCFD') Read more **here**	We are required to disclose climate-related financial information. We follow the recommendations of the TCFDs, providing our stakeholders with transparent information on climate-related risks and opportunities relevant to our business.	To enhance alignment further, we completed climate transition risk analysis, identifying six risks and modelled two Net Zero transition scenarios – orderly and disorderly – using the Network for Greening the Financial System ('NGFS') framework. Our internal TCFD working group analysed climate transition risks, strengthened our alignment with the framework and moving us towards best practice in describing the resilience of our strategy under different climate scenarios. See page 31.
Energy Savings Opportunities Scheme ('ESOS') (Amendment) Regulations 2023 Read more **here**	A mandatory energy assessment scheme for organisations in the UK with the Environment Agency as the UK scheme administrator	We made progress delivering our action plan submitted back in December 2024 to EA. These have been integrated into the PR24 delivery plan. We progressed with pump replacement programme, water supply optimisation, fleet electrification, Building Management System ('BMS') upgrade and renewable power generation.
Sustainable Finance Disclosure Regulation Read more **here**	A mandatory ESG disclosure obligation for asset managers and other financial markets participants, with substantive provisions of the regulation effective from 10 March 2021.	Regular annual reporting on ESG matters to our shareholders InfraRed, Allianz and CVC DIF.
Ofwat 'Public Value Principles' Read more **here**	Introduced by the regulator, Ofwat, in 2022 to encourage water companies to provide value beyond just water provision services and create social and environmental value.	We developed our public value positioning that elevates our public value beyond delivery of water, and provides a platform to engage key stakeholders on critical issues.

Voluntary	Requirement	How it was met
Fair Tax accreditation Read more **here**	The Fair Tax Foundation exists to encourage and celebrate organisations that pay the right amount of corporate tax, at the right time, and in the right place.	For the eighth consecutive year, we demonstrated our commitment to responsible tax practices. This strengthens customers' confidence, reinforces our ethical credentials and keeps us ahead of emerging tax regulations and legislation. Responsible tax payments support the communities we serve. Tax contributions are a vital part of the positive social and economic impact we make – they help fund essential public services such as education, healthcare, transport, policing and more.
Disability Confident Employer Read more **here**	Disability Confident is a government-backed scheme in the UK designed to encourage employers to recruit, retain, and develop disabled people.	In 2025 we received level 2 accreditation, a milestone aligned with our 'Diverse Voices, One Team' strategy. We made our recruitment process more accessible, proactively offer reasonable adjustments, renew sickness absence policy to support staff managing disability or long-term health conditions, and support Disability and Neurodiversity Network for employees.
The Task Force on Nature-related Financial Disclosures ('TNFD') Read more **here**	Disclosure of nature-related financial information.	In 2025, we joined a growing number of organisations assessing and disclosing their impacts and dependencies on nature through the TNFD framework. We formalised our commitment to the framework as guidance to identifying, managing and reporting on nature-related risks and opportunities, similar to how the TCFD supports climate-related reporting. Our water supplies depend on healthy ecosystems, so protecting and restoring nature is essential to managing risk and delivering value for our customers. By becoming a TNFD Adopter, we are strengthening how we measure and report our impact on the natural environment and improve transparency in nature-positive decision making. See page 31

Our approach to sustainability:
managing through climate and nature challenges and uncertainties continued

Voluntary	Requirement	How it was met
EU Taxonomy Read more **here**	A classification system established to clarify which investments are environmentally sustainable, in the context of the European Green Deal. It is a method to help financial institutions and large companies in the EU navigate the transition of their assets to low carbon-scale up sustainable investment.	This was our third year of voluntary assessment against the EU Taxonomy, focusing primarily on our core water supply activities. We assessed the share of revenue and expenditure aligned with the EU Taxonomy for Sustainable Activities to quantify the activities that contribute to two environmental objectives: 'climate mitigation' and 'sustainable use and protection of water and marine resources'. DNV Business Assurance Services UK Limited externally assured our FY24/25 EU Taxonomy assessment in February 2026. It concluded that, based on financial KPIs, 93.56% turnover, 93.12% capital expenditure and 93.56% operating expenditure, we were classed as being aligned with EU Taxonomy and can be considered environmentally sustainable. See page 34.
United Nations Sustainability Development Goals ('UN SDGs') Read more **here**	Adopted by all United Nations Member States in 2015, provides a shared blueprint for a sustainable future, with a set of 17 goals and 169 targets.	We use SDGs to assess our individual contribution to the global goals, and use them as framework in our Green Investment Framework as common language for sustainability used by financial institutions to enable green financing. See page 25.

Voluntary	Requirement	How it was met
Principles for Responsible Investment ('PRI') Read more **here**	Our owners, CVC DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Global Investors on behalf of the Allianz Group, all follow the PRI – the world's leading proponent of responsible investment. We align to these principles and report annually on our ESG performance.	Through our ESG reporting, we help investors incorporate ESG factors into their investment and ownership decisions.

Our alignment to the UN SDGs

The UN SDGs are a blueprint to achieve a better and more sustainable future for all. As a water-only company, we have identified which goals are particularly applicable to us in the regulated landscape that we operate in. We contribute to the 11 SDGs that are most relevant for our stakeholders and business creating value for society and environment.

Gender Equality (People, leadership & culture)

We embed equality, diversity and inclusion across recruitment, development and workplace practices, including commitments to Disability Confident and neuroinclusive employment. Our actions focus on fair reward, progression and inclusive culture. Over the past four years, our gender pay gap has reduced consistently, with the median gap decreasing by 6 percentage points and the mean by 4.8 percentage points, demonstrating sustained progress toward pay equity.

Read more about pay equity **here**

Clean Water and Sanitation (Resilience, asset stewardship, customer outcomes)

We invest in resilient, well-maintained infrastructure to secure long-term water supply and protect drinking water quality. In 2025/26, we delivered three major water treatment upgrades, including iron and nitrate removal at two sites and ozone treatment at our principal surface works. These investments increased deployable output by approximately 9Ml/day and enhanced resilience, while operating within existing abstraction licences.

Read more about our water resource management plan **here**

Decent Work and Economic Growth (Organisational capability)

We aim to be a responsible employer, supporting good jobs, workforce wellbeing and skills development. Employee engagement remains strong, with a response rate exceeding 90%, placing us in the top quartile of UK utility companies. Our early careers programme delivered 15 career events, engaging nearly 7,000 young people across 50 educational institutions, strengthening workforce capability and long-term operational resilience.

Read more about our early careers programme **here**

Read more about our apprentice insight session **here**

Industry, Innovation and Infrastructure (Asset health, innovation, leakage)

We continue to invest in network resilience, delivering 39km of mains renewal during the year and remaining on track to complete 260km across AMP8. Leakage performance improved year-on-year, supported by the deployment of advanced fibre optic sensing technology with Lightsonic and Openreach's extensive network. Project Zero continues to develop a scalable, water-neutral housing model that supports sustainable growth and aligns with future regulatory expectations.

Read more about our collaboration with Openreach **here**

Read more about Project Zero **here**

Reduced Inequalities (Vulnerability and affordability)

We provide targeted support to customers in vulnerable circumstances, ensuring fair access to essential water services. During the year, more than 140,000 households received financial support through social tariffs. We published our Vulnerability Strategy in June 2025, setting out our approach to partnerships, innovation and service enhancement. Our WaterSave block tariff pilot improved affordability, delivering average annual bill savings of £35 and reducing consumption by nine litres per person per day.

Read more about our vulnerability strategy **here**

Our alignment to the UN SDGs continued

Responsible Consumption and Production (Demand management)

Our 50-year WRMP sets out how we will balance supply and demand to ensure a secure and sustainable water supply for future generations. We engaged business customers on water efficiency and restructured tariffs to remove falling block pricing. Our smart metering programme reached over 103,000 installations ahead of schedule, supporting our commitment to install 400,000 meters during the AMP.

Read more about our metering programme **here**

Climate Action (Long-term resilience)

We recognise climate change as a material business risk and are investing £8.6 million across the AMP to enhance climate resilience. We are updating our Net Zero strategy and committing to science-based targets aligned with a 1.5°C pathway consistent with the UK's 2050 Net Zero ambition. This will provide a clear framework for emissions reduction, investment planning and supply-chain engagement.

Read more about our approach to Climate Change Adaptation **here**

Life Below Water (Environmental protection)

We are working with stakeholders to protect rivers and aquatic ecosystems, including chalk streams. Between 2025 and 2030, we plan to reduce and relocate groundwater abstraction by 35Ml/d to improve environmental flows. To offset deployable output reduction, we progressed alternative supply options, including GUCT, strengthening long-term environmental and supply resilience.

Read more about Grand Union Canal Transfer **here**

Life on Land (Catchment and biodiversity)

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. We work with farmers on shared objectives. In 2025/26 we launched two programmes aimed at biodiversity enhancement and conservation- '**Rooting for Wildlife**' and '**INNS Out Scheme**' available for our customers and communities to apply for funding towards these shared objectives.

Read more about our Groundwells 2025 sponsorship **here**

Read more about our objectives **here**

Partnerships for the Goals (Public value and collaboration)

Creating partnerships enables us to deliver greater environmental and social value through our core activities. They are central to delivering social and environmental outcomes beyond statutory duties. During the year, we worked with over 20 charities, community organisations and community interest companies to protect the environment, pilot innovative delivery models and provide targeted support to customers in vulnerable circumstances.

Read more about our community support **here**

Read more about our partnership with Kidney Care UK **here**

Regional Community Engagement

Meet our stakeholders

We engage with a range of stakeholders across our supply area, both at a national and regional level to keep them updated on our operations and strategic priorities.

We work closely with our regulators – Ofwat (economic regulator), the EA (environmental regulator), the Defra (water quality regulator) and the Consumer Council for Water ('CCW'), who represent customers. We also engage with non-departmental public bodies such as Natural England and Historic England, alongside several non-governmental organisations ('NGOs'), such as charities, community groups and environmental organisations. Our supply area includes both rural and dense urban communities, which have diverse needs. We regularly engage with MPs, councillors and local authorities to share information on improvements or changes that may impact the communities they serve.

49
Local Authorities

55
MPs

Customers can access a range of services for advice and support

Our Material Themes

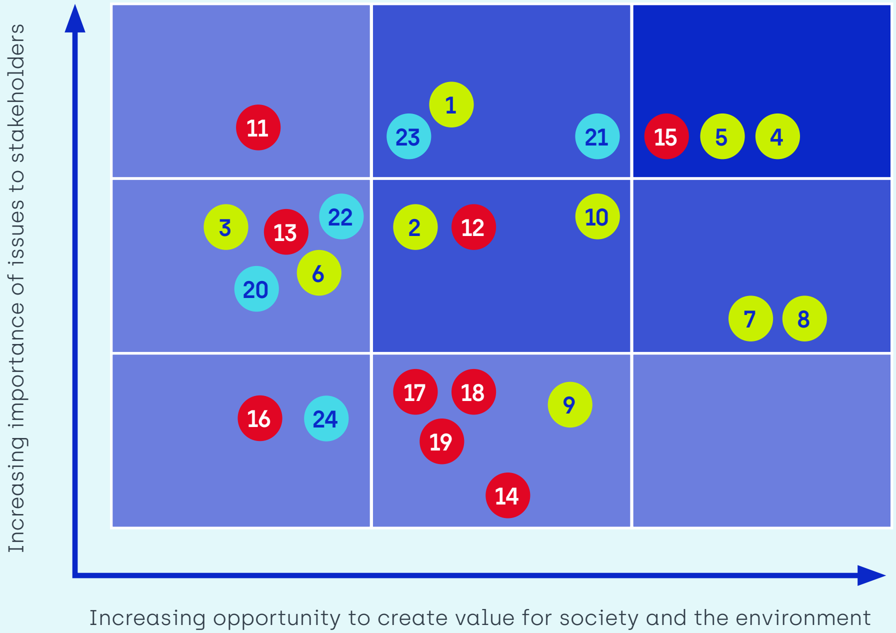
Our materiality assessment helps us focus our activities and reporting on the most relevant and significant ESG themes for the company and stakeholders where opportunity has been identified to create value for environment and society. These are Net Zero, climate change, partnerships and public value, trust, transparency and legitimacy.

We determined them using a combination of direct stakeholder feedback, customer insights, third-party research, media and political views, consultation responses (to the WRMP 2024) and internal insight sessions back in 2024. We mapped the material issues against the principal risk framework and prioritised accordingly (see page 69). By monitoring and targeting these areas of impact, we are mitigating the risk and adding value. The regulatory landscape we operate in is evolving rapidly hence we plan to undertake a periodic review of this matrix, in line with our Business Plan priorities. The case studies on the next page show activities in priority areas in 2025/26. Net Zero and climate change are in addition covered in greater depth on pages 31 to 57 as part of our integrated TCFD and TNFD disclosures.

ESG Themes and Activities

Environmental	Social	Governance
1 Water Resources	11 Affordability & Vulnerability	20 Cyber & Data Security
2 Water demand	12 Water Quality	21 Trust, Transparency & Legitimacy
3 Leakage	13 Customer Experience	22 Political & Regulatory Environment
4 Net Zero	14 Innovation	23 Financial risk management
5 Climate Change	15 Partnerships and public value	24 Procurement
6 Chalk Streams	16 Supply Chain	
7 Catchment Management	17 Health, Safety & Wellbeing	
8 Natural Capital & Biodiversity	18 EDI and workforce	
9 Land management & recreation	19 Employee engagement	
10 Circular Economy		

Materiality Assessment



Our Material Themes continued

Reducing embedded carbon

Net Zero

We are investing in several new capital projects to ensure resilience of our infrastructure and provision of high quality drinking water. For this, we are designing new infrastructure, optimising material use and substituting carbon intense resources with alternatives to reduce project's embedded emissions. This year we completed ion exchange plant design at the water treatment works Kingsdown in Kent which created a blueprint for future approach.

We focused on carbon and cost being reduced at the definition stage. We calculated the baseline for carbon impact of the proposed design, conducted a series of workshops with the design team to identify opportunities for lower carbon materials and techniques for carbon avoidance. The current design is expected to achieve 24.3 tCO_2e benefit after reducing amount of concrete and steel use without compromising operational performance and health and safety requirements. Going forward we will work with supply chain to systematically identify low-carbon materials opportunities within our building standards. We will utilise outputs from the trial to develop internal targets for carbon reduction with our contractors and will develop internal resource for carbon estimation to embed carbon management alongside cost, within Totex Governance processes.

Social Value strategy

Partnerships and public value

The Grand Union Canal Transfer ('GUCT') scheme will transfer highly treated recycled water from Severn Trent's supply area to areas of water deficit in Affinity Water's supply zone, via a combination of treatment plants, pipelines and use of the Canal & River Trust's historic canal network. All to strengthen the UK's water infrastructure, and create a legacy of resilient water resources for the supply of public drinking water and canal navigation, for future generations.

We have identified potential opportunities at many locations along the route to bring further long-term benefits to the environment and local communities, as well as for canal customers and users. The social value strategy has been developed by the three scheme partners to deliver additional public value through initiatives, such as:

- Environmental outreach with local schools
- Community co-design
- Improvement in the active travel routes
- Improvement of the canal path accessibility
- Volunteering in the local community
- Local job opportunities
- Provision of apprenticeship opportunities
- STEM outreach activities in local schools and colleges
- Initiatives to develop a local, diverse supply chain

Early careers and work readiness

Partnerships and public value

Youth unemployment remains high, with 16% of economically active 16–24-year-old unemployed in 2024. Affinity Water's regions face similar challenges, including local skills shortages, particularly in construction, engineering and technical roles, especially as the sector requires future-ready skills to deliver Net Zero and core infrastructure.

In response to this challenge in 2025 we developed an early careers strategy with a clear proposition to strengthen programmes across outreach, work experience, internships, apprenticeships and graduate schemes. We developed our **Early Careers website** and supporting materials, attended 15 career events, engaging over 50 education institutions and building relationships with councils, colleges, universities and training providers. Our key partners include the 5% Club, Hertfordshire and Essex councils, local colleges, universities and community organisations. Since 2025, we have engaged nearly 7,000 students across outreach activities. We continued onboarding apprenticeships and graduates. We delivered 30 work experience placements in 2025 and have more planned. This year we will also host our first Apprentice Insight event for 30 students. Our Early Careers strategy is strengthening the talent pipeline, improving access to hard to recruit roles and supporting long-term workforce resilience.

Open Data strategy

Trust and transparency

Over the year, we strengthened our open data approach to enhance transparency, accountability, and innovation across the water sector, supporting more informed decision-making and improved service delivery for customers and stakeholders. We also identified additional collaboration partners and priority use cases to expand data openness, fostering trust and increasing transparency of the information and insights we provide for the benefit of our communities.

In direct response to stakeholder feedback, we launched a publicly accessible platform for open source environmental data. Hosted through the **Aquarius web portal**, the platform provides near real-time, quality-assured information on water resources, rainfall, river flows, and catchment management. Users can explore more than two decades of environmental data from over 650 monitoring locations via an interactive map that highlights trends and key statistics. Data can also be exported for non-commercial purposes.

We also collaborated across the industry to develop consistent specifications and publish environmental and regulatory datasets through **Stream** — a sector-wide initiative funded by Ofwat that enables UK water companies to unlock, share, and standardise water data for public, research, and industry use. Stream's open data platform enhances transparency, supports improved environmental outcomes, and drives innovation by providing machine-readable data on water usage and infrastructure.

Environmental Risk and Opportunity Report: integrating TCFD and TNFD

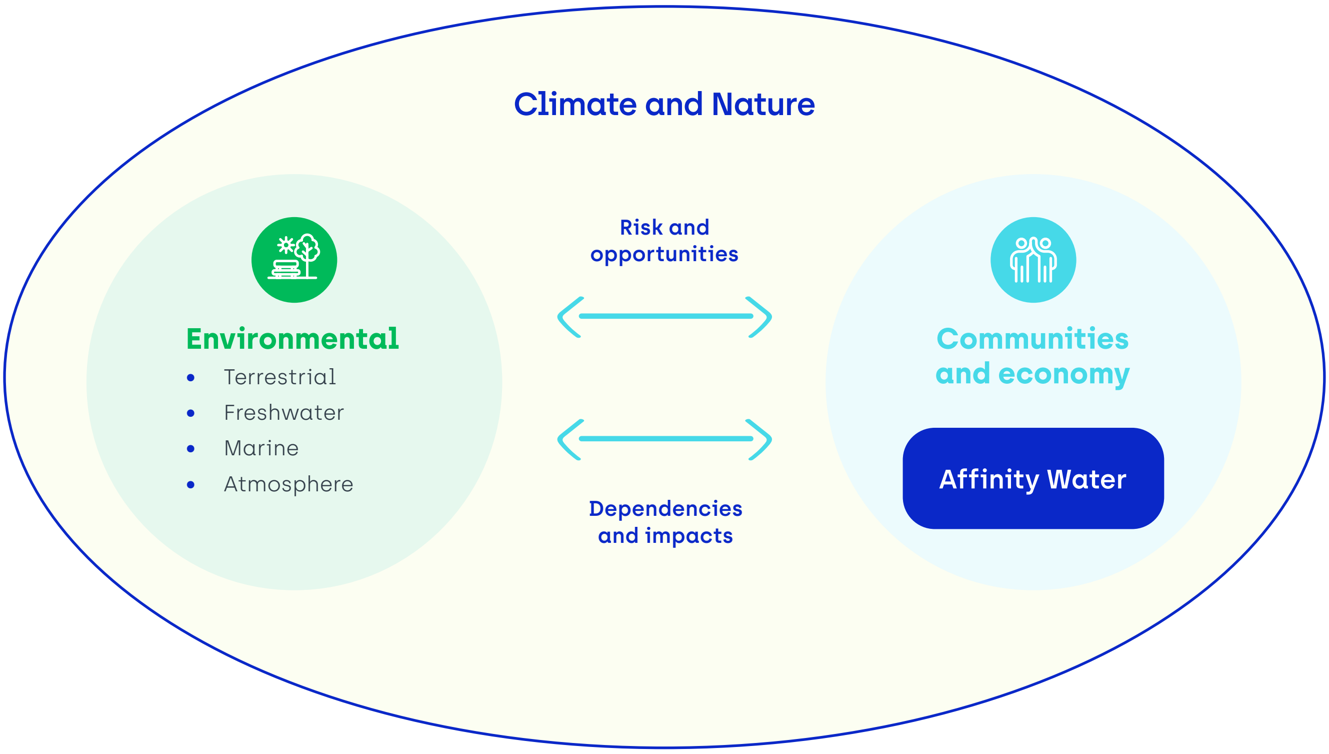
In this section

Climate and nature pressures are no longer distant possibilities; they are shaping our operating environment today. The past year has demonstrated this clearly, with the UK experiencing record sunlight hours and temperatures, the driest spring in decades, prolonged winter rainfall and the strongest storm in ten years. In addition to this, the state of nature continues to decline in the UK. These extremes underline the reality that our sector sits at the intersection of weather, climate and nature: while some water companies faced temporary use bans, others were responding to flooding.

Our commitment to TCFD reporting has strengthened our ability to anticipate and manage climate-related risks and opportunities to ensure we continue to deliver high quality water and protect the natural environment. By integrating TNFD alongside TCFD, we are now broadening this approach – capturing not only climate risks and opportunities, but also the nature-related dependencies and impacts that shape our resilience.

This integrated report reflects our understanding that climate and nature are inseparable, and that effective stewardship of both is essential to delivering a reliable, sustainable water service for the diverse communities that we serve.

Our interdependencies with climate, nature and our operations



As a water company, we recognise that we are embedded within climate and nature, alongside our communities and economy more broadly. This means we are dependent on our environmental assets and natural systems to create value and adequately manage risk.

Environmental Risk and Opportunity Report: Governance

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

A Describe the Board's oversight of climate-related risks and opportunities.

B Describe management's role in assessing and managing climate-related risks and opportunities.

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

A Describe the Board's oversight of nature-related dependencies, impacts, risks and opportunities.

B Describe management's role in assessing and managing nature-related dependencies, impacts, risks and opportunities.

C Describe the organisation's human rights policies and engagement activities, and oversight by the Board and management, with respect to indigenous peoples, local communities, affected and other stakeholders, in the organisation's assessment of, and response to, nature-related dependencies, impacts, risks and opportunities.

Introduction

Our governance processes embed climate and nature-related considerations in leadership, management and provide accountability across the organisation. By integrating TCFD and TNFD principles, we give the Board, Executive Leadership Team and supporting committees clear responsibility for overseeing climate and nature-related risks, opportunities and strategic decisions. This structure gives us transparent oversight and integrates climate and nature into planning and performance management.

Progress this year

ESG Board Committee is responsible for setting strategic direction on ESG, including climate change and nature, across the business, to monitor and minimise risks and maximise opportunities to add social and environmental value from our activities.

We have clarified the role of each Board committee in managing climate and nature risks. The Remuneration Committee links Executive incentives to WINEP delivery, biodiversity enhancement and operational GHG reduction. The Audit, Risk and Assurance Committee ('ARAC') oversees internal controls, assurance and risk management, including climate-related risk. The ESG Committee sets the strategy for achieving these targets.

Future focus

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

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

Where else to look

See our Governance Report on pages 83 to 140 including the work of the ARAC, Remuneration Committee and Nomination Committee.

See principal risks and uncertainties section on pages 69 to 76.

See section 172(1) statement on pages 61 to 64.

A A

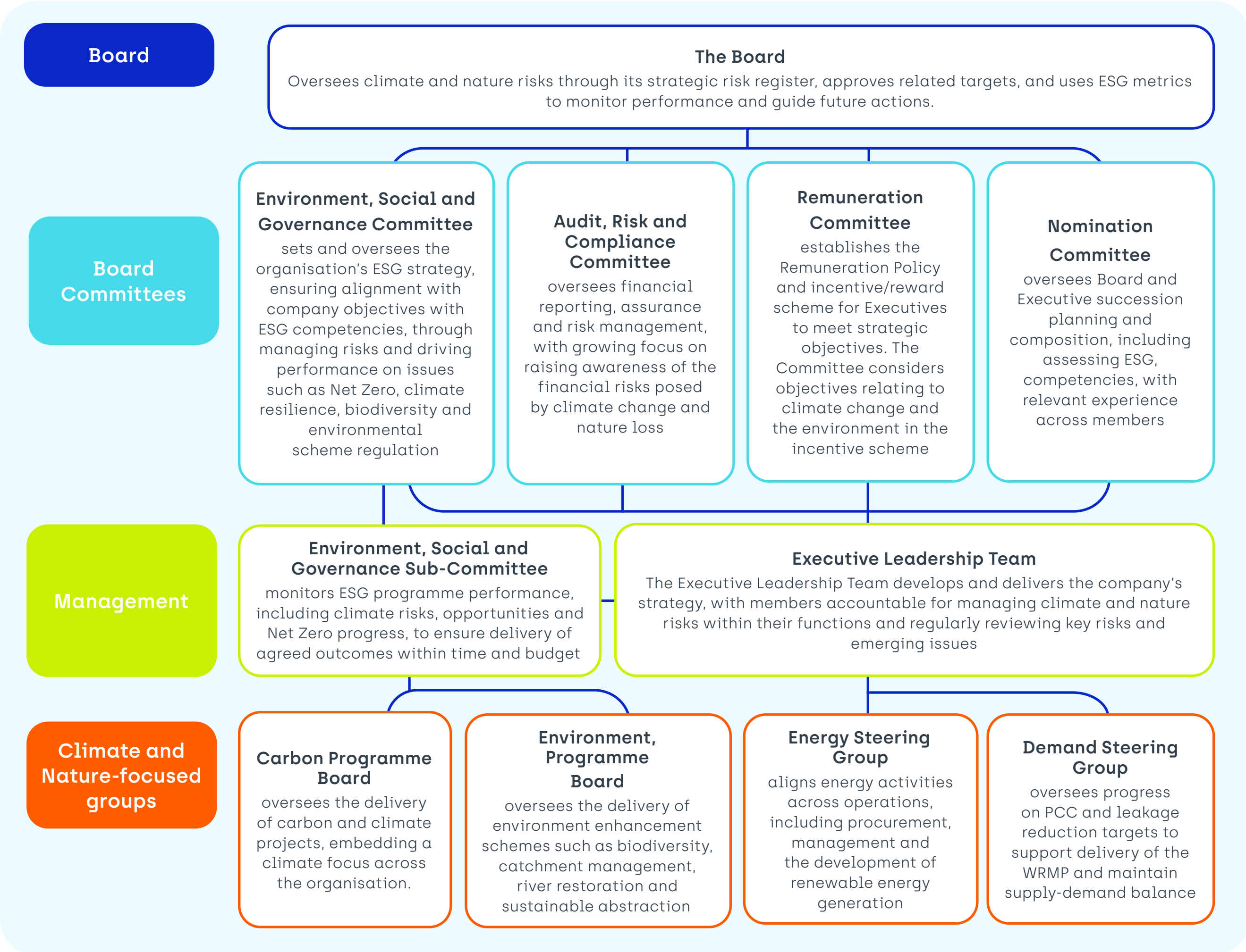
The Board

The Board understands the climate and nature emergency we are currently all facing and reflects this in its decision making. Our Board have the knowledge and expertise to help develop strategic plans, assess and understand risk and opportunities and help monitor performance against agreed targets. See Board skills matrix and director biographies in our Corporate Governance report for more details on pages 85 to 87.

The Board oversees climate and nature-related risks and opportunities, with climate risks included in ou strategic risk register reviewed regularly by the Executive Team and annually by the Board. Climate change and the transition to Net Zero are recognised as impacting several principal risks, with controls and mitigation actions in place.

The Board also approves climate and nature targets, including carbon reduction and biodiversity outcomes, and in 2025 monitored progress using an ESG scorecard to guide future actions.

Environmental Risk and Opportunity Report: Governance continued



Sustainable finance

Sustainable finance and investment are accelerating climate change resilience and adaptation.

Sustainable finance and investment are essential to climate change resilience and adaptation. Our Green Finance Framework supports this by ensuring sustainability is at the core of how we finance the company enabling us to issue green financing instruments to support our environmental objectives ensuring that our investment decisions account for long-term risks and opportunities. The Framework aims to support the funding and allocation of projects which promote the UN SDGs (see pages 25 and 26) as well as setting out project selection criteria aligned with ICMA and LMA best practice. The impact of these projects are subsequently quantified and then independently assured. In 2025/26, we continued to invest in leakage reduction and smart metering programs as well as other green projects, which are in line with our AMP8 delivery targets. We continue to allocate funds from two green bonds £350 million and £130 million to projects that meet our eligibility criteria.

Board Committees

The following Board Committees report into the Board and support the delivery of our climate and nature strategy. Further information on each committee can be found by following the link to the relevant sections within our Annual Report.

ESG Board Committee – Page 96

Audit, Risk and Assurance Committee – Page 101

Remuneration Committee – Page 114

Nomination Committee – Page 109

Environmental Risk and Opportunity Report: Governance continued

EU Taxonomy

This was our third year of voluntary assessment against the EU Taxonomy criteria, and DNV Limited provided external assurance for the first time, with focus primarily on our core water supply activities and contribution to two environmental objectives: 'climate mitigation' and 'sustainable use and protection of water and marine resources'.

Read more **here**

A greater share of our economic activities aligned with the EU Taxonomy criteria this year than last year. As we move forward, we will continue to refine our assessment further to improve the granularity of our activities and further examine the criteria for our eligible activities. This assessment has helped investors evaluate our green credentials and has supported our Green Finance Strategy.

B B

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 People and Culture, Director of Health, Safety and Estates, General Counsel and Company Secretary) develops and executes the company's strategy. Individual ELT members are responsible for leading their directorates, including management of climate and nature risks in their areas e.g. operations, engineering, finance, procurement, environment, communications, HR, etc. The ELT regularly reviews high-priority risks and carries out horizon scanning exercises.

ELT formed an ESG Sub-Committee, chaired by the Director of Regulation and Strategy, with the purpose of monitoring the performance of ESG programmes, to achieve set 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 Regulation and Strategy, Director of Asset Strategy and Capital Delivery, Head of Culture and EDI, Head of Water Resources and Environment, Head of Cash Collection and Debt Management, Head of Procurement, Climate Change and Carbon Manager, Compliance Manager and Sustainability Manager.

As an example of the management of climate and nature risks, we have developed robust Emergency and Business Continuity plans that set out our approach to preparing for, responding to and recovering from disruptive events when they arise. These plans are reviewed and updated every 2 years, or upon notification from government relating to new or emerging risks. They are also updated with lessons learned from incidents and exercise.

Our Sustainability Manager leads working groups that deliver our TCFD and TNFD work. These working groups meet at least once a month, and consist of our Climate Change and Carbon Manager, Risk Manager and Financial Controller and Natural Capital Manager. They report to the ESG Sub-Committee and work on implementing the TCFD and TNFD recommendations and preparing our disclosures.

Our Water Resources and Environment department leads climate and nature-based projects. The Climate Change and Carbon Manager leads our climate adaptation and mitigation work through our Carbon Programme Board. The Carbon Programme Board reports progress to the ESG Sub-Committee and ESG Committee on at least a quarterly basis. The Carbon Programme Board consists of leads from across the business to maximise the reach of climate considerations across varying workstreams.

The Energy Steering Group was established this year to provide clear alignment across all areas of energy within our operations, including the procurement and management of energy and the development of our renewable energy generation capabilities.

The Demand Management Steering Group provides governance and oversight of the delivery of customer consumption and leakage reduction targets to align with delivery of WRMP and supply demand balance.

Environmental Risk and Opportunity Report: Governance continued

TNFD early adopter

This year, we registered as an early adopter working with Green Finance Institute, aiming to improve the understanding of our nature-related dependencies and impacts.

We will do this by strengthening how we measure, manage and report. Our Natural Capital Manager hosts our TNFD working group. Key personnel attend this working group and play a central role in delivering our environmental commitments through programmes such as WINEP.

Our Code of Ethics

Our Code of Ethics is a set of principles that expresses the values and behaviours we always expect in our business to take care of ourselves, each other, our integrity, our business and the environment and communities that we serve. It includes our Human Rights Policy and our stance on modern slavery. We are working with our upstream supply chain to help them adhere to similar ethics regarding human rights and environmental protection by adopting our Supplier Code of Ethics. From this year the code is an integral part of legal agreements with our primary contractors and suppliers. Our Environment Policy sets our ambition and commitment to leave the environment in a sustainable and measurably improved state. We continued to raise awareness of our Environment Policy, which commits us to complying with environment and biodiversity legislative obligations and is part of mandatory training. Our Environmental Handbook, available to all employees and contractors, sets requirements for working on land with environmental designations or protected species.

Future focus

To further strengthen our governance around climate-related and nature-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 will continue to enhance awareness across our Board, ELT and senior management about the role they play. We will consider updates to the Terms of Reference of our Board Committees to formally recognise the roles these committees are playing in managing climate and nature risks. We will continue strengthening incentives/rewards for ELT and all employees to drive the achievement of our climate and ESG objectives.

Environmental Risk and Opportunity Report: Strategy

Climate	Nature
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.	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.
A Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	**A** Describe the nature-related dependencies, impacts, risks and opportunities the organisation has identified over the short, medium and long term.
B Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	**B** Describe the effect nature-related dependencies, impacts, risks and opportunities have had on the organisation's business model, value chain, strategy and financial planning, as well as any transition plans or analysis in place.
C Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	**C** Describe the resilience of the organisation's strategy to nature-related risks and opportunities, taking into consideration different scenarios.
	D Disclose the locations of assets and/or activities in the organisation's direct operations and, where possible, upstream and downstream value chain(s) that meet the criteria for priority locations.

Introduction

This section outlines how the we integrate climate and nature related considerations into our overall business strategy, long-term planning and decision making. By applying both TCFD and TNFD principles, we assess how climate change and nature loss may influence our operating environment, value chain, customers and communities, as well as the resilience of its business model. It also sets out how identified risks, opportunities and dependencies shape our strategic priorities, investment choices and actions to ensure long-term sustainability and value creation.

Progress this year

Following publication of our Climate Adaptation Report in 2024, we have been focused on embedding our AMP8 action plan into our business strategy.

We have made significant progress in our flooding assessments, where we use climate predictions to identify the assets most at risk, considering impacts on customers. We have developed a work programme to reduce this impact, ensuring our ability to serve our customers during climatic weather scenarios.

We have focused on updating our Net Zero Strategy, which we aim to publish next year. Within this strategy, we are committed to minimising our impact on climate change, while delivering emissions reductions in the most cost-effective way.

On nature, we mobilised key elements of our WINEP programme for year 1 of AMP8. This means starting to deliver investments for biodiversity, invasive species, catchment management and river restoration. Furthermore, we're continuing to conduct investigations on sustainable abstraction and improving the competency of operational teams to prevent and manage pollution incidents.

Within this year's report, we have aimed to improve our understanding of our dependency on nature through key ecosystem services that enable us to supply clean drinking water to our customers. This has enabled us to enhance our view on our positive and negative impacts on nature, as well as our overall physical risks.

Future focus

Following successful GHG reporting, we will continue to assure our emissions to obtain ISO14064-1 assurance for our emissions data. We will also continue working with our supply chain to improve our Scope 3 emissions reporting.

We are reviewing requirements for aligning reporting to the Carbon Disclosure Project ('CDP') within AMP8.

We plan to develop a transition strategy that sets out the steps we will take to manage our transition risks.

We are working to become PAS 2080 accredited by 2030, highlighting our commitment to the reduction of carbon within our capital delivery programme.

We aim to enhance future TNFD disclosures by improving our data on the condition of habitats, provide more context on our positive and negative impacts and improve how we account for nature-related risks in our long-term scenarios. Furthermore, we will be updating and improving our natural capital accounts for our estate.

GHG reporting on page 52

A B

Climate

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, considering the impacts of climate change. We make climate change a central consideration when developing 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.

Environmental Risk and Opportunity Report: Strategy continued

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

Time horizon	Time period	Justification
Short term	2025–30	Aligns with AMP8 planned actions
Medium term	2030–50	Aligns with actions identified in the LTDS and WRMP
Long term	2050+	Aligns with forward-looking nature of WRMP24 and post-UK Net Zero 2050

Physical climate risk assessment

We updated our physical climate change risk assessment in 2024 as part of our Climate Change Adaptation Report, identifying six material physical risks posed by climate change (shown below), reported as our headline risks.

The report considers how the 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. The report details where we want Affinity Water to be in 2030 and highlights the planned interventions during AMP8 that will help us get there, as well as detailing the impacts these interventions have on our risk position.

The 2024 Climate Change Adaptation Report identifies the material physical and transitional risks shown below. The transitional risk scoring is further discussed in the next section.

Overview of our physical and transition risk scores

Risk Category	Risk reference	Risk name	Current risk score	Future risk score[1]	Target risk score
Physical risk: Climate risks to water availability and supply	R1	Increase in demand due to higher temperatures	8	25	6
	R2	Reduce availability of ground and surface water due to drought	9	25	2
	R3	Increase in competition for and price of raw water imports	4	9	4
Physical risk: Climate risks to asset resilience	R4	Equipment and asset failure due to extreme weather events	12	25	6
	R5	Outages due to flooding of assets	8	25	6
Physical risk: Climate risk to water quality	R6	Changes to water quality	9	25	6
Transition risk: Market risks	T1	Increased costs of energy and materials due to the transition to decarbonise	12	20	9
Transition risk: Policy and regulation risks	T2	Regulatory system not enabling sufficient investment for Net Zero transition and climate adaptation	20	20	12
	T3	Changes in the policy and regulatory requirements for water companies related to climate change, Net Zero, and more stringent environmental regulations	12	20	12
Transition risk: Technology risks	T4	Capacity and readiness for technology, Affinity Water's people, resources, and supply chain to deliver Net Zero and climate adaptation	15	15	9
Transition risk: Reputation risks	T5	Negative public/stakeholder perception of Affinity Water due to underperformance in management of the environment and/or Net Zero	15	15	6
	T6	Customer affordability and fairness concerns due to costs to achieve Net Zero and adapt to climate change	9	12	6

*Future risk scores are given for the impacts by 2075 for a +4°C scenario for physical climate risks (R1–6), and for 2030 for transition risks (T1–6).

Risk scoring matrix

Impact

Likelihood	1. Insignificant	2. Minor	3. Moderate	4. Major	5. Critical
5. Almost certain	5	10	15	20	25
4. Probable	4	8	12	16	20
3. Possible	3	6	9	12	15
2. Unlikely	2	4	6	8	10
1. Remote	1	2	3	4	5

Environmental Risk and Opportunity Report: Strategy continued

We undertook scenario analysis considering physical climate risks in our LTDS, developed as part of our PR24 business plan. In this, we adopted the climate change scenarios mandated by Ofwat's PR24 methodology: the Intergovernmental Panel on Climate Change's ('IPCC') 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.

Transition risk and opportunity assessment

In 2023, we published our Net Zero Strategy, and in 2024 we identified material transition risks with support from consultants AtkinsRéalis. We identified material risks by considering challenges relating to the UK's transition to Net Zero and associated challenges across the UK Water Sector. Our 2024 Climate Change Adaptation Report summarised the impact of our transitional risks and mitigating actions. The report summarised the preliminary assessment of risk impact and likelihood by 2030, provided we could complete the mitigating actions described. We recognise that some of our transition risks are high and are currently higher in comparison to physical risks. We are currently updating our Net Zero Strategy, which will outline further actions to reduce transition risks. Following the completion of this, we will address the transition risks through the development of a transition plan.

In addition to the transition risk assessment, we identified key transition opportunities. Our material transition opportunities identified are shown below:

Transition opportunity category as defined by TCFD	Transition opportunity
Resilience	Strengthening resilience throughout our operations, asset infrastructure, and supply chain to avoid costs (e.g. disruptions and damages) and improve company value.
Water/resource efficiency	Reducing costs and GHG emissions through efficiency and innovation, focusing on energy-efficient technologies, sustainable water use, and actions to reduce carbon emissions across our operations, construction, and supply chain.
Products and services	Increasing our revenue through offering Strategic Water Resources and expertise to other water companies.
Energy source	Reducing costs and GHG emissions through increasing uptake on renewable energy and new technologies.
Reputation	Strengthening public and stakeholder buy-in to support sustainable investment, by being seen as leader in Net Zero and climate change.
Market	Reducing our financing costs through sustainable financing.

Climate transition scenario analysis

Approach

Last year we carried out a qualitative scenario analysis, considering our strategic responses to the impact of material transitional risks under two transition scenarios. The assessment considered impacts to 2050; we selected this time horizon as it aligns with the UK's Net Zero target. There is considerable uncertainty beyond this time regarding potential changes to policy, technology, markets and public opinion. This builds on the analysis in our Adaptation Report, where we considered the impact of transitional risks and outlined our mitigating actions to 2030.

We selected two transition scenarios from the Network for Greening the Financial System ('NGFS') Framework, which have become widely adopted in the UK. We used two NGFS scenarios: (1) Orderly transition, aligned to the NGFS Net Zero by 2050; and (2) Disorderly transition, which aligns with NGFS Delayed Transition scenario.

We have selected these contrasting plausible scenarios to assess the range of potential future challenges and opportunities we may experience as we strive to achieve our total Net Zero by 2050 target.

We define our scenarios as follows:

Orderly transition – Net Zero by 2050	Disorderly transition – Delayed transition
A scenario which sees the UK as a global leader with strong and immediate policy actions in place to mitigate climate change, aligned with the Paris Agreement to limit warming to 1.5°C.	Assumes global annual GHG emissions do not decrease until 2030. Strong policies are then needed to limit warming to below 2°C.
• **Policy ambition:** Limiting warming to 1.5°C • **Governance ambition:** Immediate and smooth • **Technology:** Fast change • Lower transition risks and relatively low physical risks • Behaviour changes occur which reduce energy demand • Net Zero GHG emissions is reached in 2050	• **Policy ambition:** Limiting warming to below 2°C • **Government ambition:** Policy changes delayed until 2030, then an abrupt paradigm shift to Net Zero transition occurs • **Technology change:** Fast change post 2030 • Higher transition and physical risks • Delays potentially lead to Net Zero transition after 2050 target

Environmental Risk and Opportunity Report: Strategy continued

Key assumptions:

- Scenarios focus on the UK policy and regulatory context and are semi-independent of global action and temperature pathways.
- We assume energy prices remain relatively high throughout the next 25 years.
- The UK Government's ambition around environmental policy remains high, regardless of the pace of transition.

Impacts – Disorderly transition

The delayed rate of change of policy, government ambition and subsequent delayed changes to technology and readiness associated with this scenario provide a challenging context for us to meet our total Net Zero by 2050 target. The following are the main impacts for our business:

Higher energy and material costs

- Slow grid decarbonisation and delayed low-carbon technologies.
- Post-2030 demand for green electricity exceeds supply, raising prices.
- Increased reliance on carbon offsetting due to delayed removal of carbon-intensive energy sources.

Weaker regulatory environment

- Limited incentives for decarbonisation until after 2030.
- Slower GHG reductions and higher future decarbonisation costs.
- Fewer rewards for GHG reduction and nature-based solutions.

Environmental regulation increases emissions

- Stricter abstraction rules require more energy-intensive treatment and supply imports.
- Higher emissions persist until low-carbon technologies become widely available.

Reputational risks

- High public scrutiny, especially among younger demographics.
- Need to balance affordability with credible Net Zero progress.

Higher physical climate risks

- More extreme weather events drive higher resilience, repair and maintenance costs.

Lower opportunities

- Lower returns on transition-related opportunities.
- Efficiency and innovation can partially offset additional costs.

Impacts – Orderly transition

The timely and smooth change of policy, government ambition and changes to technology associated with this scenario reduce the impact of our transitional risks considerably.

Lower energy and material costs

- Strong, early government action accelerates decarbonisation.
- Lower technology costs and adequate supply of low-carbon skills.
- Reduced reliance on carbon offsetting.

Stronger enabling environment

- Faster GHG reductions and lower decarbonisation costs.
- More incentives and funding available.
- Reduced risk of investment regret due to policy certainty.

Environmental regulation impact reduced

- Enhanced regulation still increases energy use, but lower-carbon technologies mitigate emissions.

Reputational considerations

- High scrutiny continues but with stronger customer and investor support.

Lower long-term physical climate risk

- Global alignment reduces post-2050 climate impacts.
- Extreme weather continues to 2050 due to continued warming.

Greater opportunities

- More favourable environment for innovation, sustainable finance and investment.

Our strategic response

Our latest business plan for AMP8 sets out our investments through to 2030 and is based on the current policies and regulatory framework. Even if favourable policy changes related to Net Zero occur before 2030, our ability to take advantage of these will be limited due to our committed business plan. We, therefore, acknowledge that we will more than likely need to be resilient to the effects of a disorderly transition to achieve our total Net Zero by 2050 target. Our key strategic responses to impacts of a disorderly transition are as follows:

- **Investing in efficiency and renewable energy:** Scaling efficiency, optimisation, and solar generation reduces emissions, reliance on grid decarbonisation, and exposure to future carbon pricing. We have shifted spending from premium green electricity toward customer-aligned priorities like water efficiency.
- **Balancing environmental and Net Zero commitments:** Enhanced monitoring will help evaluate trade-offs between reducing abstractions and carbon impacts. We continue to highlight whole-system effects of environmental policy and share insights through our '10 Steps to Water Security' paper.
- **Transparent customer engagement:** We will update our Net Zero plans in line with Water UK's review and maintain transparency through Adaptation and Annual Reports. We will adjust plans as policy, markets and technology evolve.
- **Low-carbon procurement:** We are diversifying suppliers, developed a Supplier Code of Conduct, monitoring supplier emissions, and exploring power purchase agreements for renewable energy.
- **Pursuing opportunities for customer and shareholder value:** Through our Green Finance Framework and innovation funding, we will continue reducing financial costs and accelerating progress. Under an orderly transition, the same strategies apply but with fewer risks and lower overall expenditure.

Environmental Risk and Opportunity Report: Strategy continued

Our Net Zero Strategy

We are developing a new Net Zero Strategy, which considers the challenges identified within PR24, and aligns our decarbonisation with the UK Government's target of Net Zero by 2050. This new target includes a wider boundary of emissions, including emissions from our supply chain.

We are reviewing options for science-based targets as the methodology for developing our long-term decarbonisation goals. Using these targets, we will develop decarbonisation plans as a priority within our price reviews, ensuring that plans are cost-efficient and aligned with the views of our customers.

We plan to deliver this update to our Net Zero Strategy within year 2 of AMP8 (2026/27).

We are also in the process of developing a Power Purchase Agreement Supply Framework. While the UK Grid decarbonises, we aim to maximise our on-site renewable energy generation to minimise our impact on the UK Grid and increase the proportion of our energy that is derived from renewable energy.

C

Statement of resilience

The climate scenarios explored have two key impacts on our business:

- Higher costs in the short and medium term to achieve our ambition of total Net Zero by 2050 in the event of a disorderly transition scenario.
- Higher cost in the short, medium and long term under a more extreme physical climate risk scenario e.g. above 2°C.

We, and others, will need to take significant action and make significant investment, e.g. our supply chain, government, regulators, local authorities, landowners, other providers of infrastructure and services. We will need to invest more to improve our resilience to climate change and deliver Net Zero. Our assets are likely to require additional protection, and planning for new assets will require a greater level of embedded climate resilience.

We have a range of strategic options to manage the impacts and take advantage of opportunities under different scenarios. Several of the strategic responses outlined above are already included in our strategic and business plans.

Whole-life carbon reduction

As part of our PAS 2080 ambitions, we have continued to prioritise reducing whole-life carbon across our capital delivery programme. Throughout the year, we worked closely with our delivery partners to shape project designs that minimise both embodied carbon in construction materials and the operational emissions associated with long-term asset performance.

On one project, we reduced reliance on high-carbon materials such as concrete and steel, while exploring innovative construction methods to further lower the project's carbon footprint. This approach has enabled us to develop a low-carbon asset that maintains the required levels of operational performance and adheres to the highest health and safety standards.

Nature

A

Dependencies

Across three regions, our supply area (figures 1 and 2) covers a total of 450,000 hectares. Whilst most land in our region is classified as agriculture or urban (over 60%), our region possesses a diverse range of terrestrial, freshwater and coastal habitats. Terrestrial habitats include broadleaf and coniferous woodlands, grasslands, scrub and heathland. Freshwater and coastal habitats include chalk streams, lakes, fen, coastal saltmarsh and shingle beach. Many of these habitats are designated as priority habitats or protected sites under various legislation.

As a water supply-only company, we have a strong dependency on the extent and condition of these habitats to ensure we continue to supply high-quality drinking water to our customers. Furthermore, our estate is approximately 1,500 hectares and makes up less than one percent of our entire supply area, meaning we depend heavily on third-party landowners.

Maintaining and enhancing habitats in our region can reduce our nature-related risks and our impacts on nature. We can explore this concept of double materiality further through the lens of the natural capital approach and identifying some of the key provisioning and regulating ecosystem services we depend on as a water company:

Environmental Risk and Opportunity Report: Strategy continued

- **Water provisioning and flow regulation** – how nature regulates the flow of surface water and groundwater that enables us to sustainably abstract it for supply and enhance our resilience to drought.
- **Water purification** – the removal of pollutants and maintaining raw water quality.
- **Natural hazard regulation** – the storage of water in catchments at times of high rainfall and reducing the risk of flooding to our assets from surface and groundwater.
- **Climate regulation** – sequestering carbon and reducing our impact on climate change.
- **Pollutant removal** – filtering out any air or water-based pollutants that may arise from operational processes such as treating water for supply.

We also recognise the role we can play in enabling cultural ecosystem services for communities such as recreation, education, volunteering and physical wellbeing.

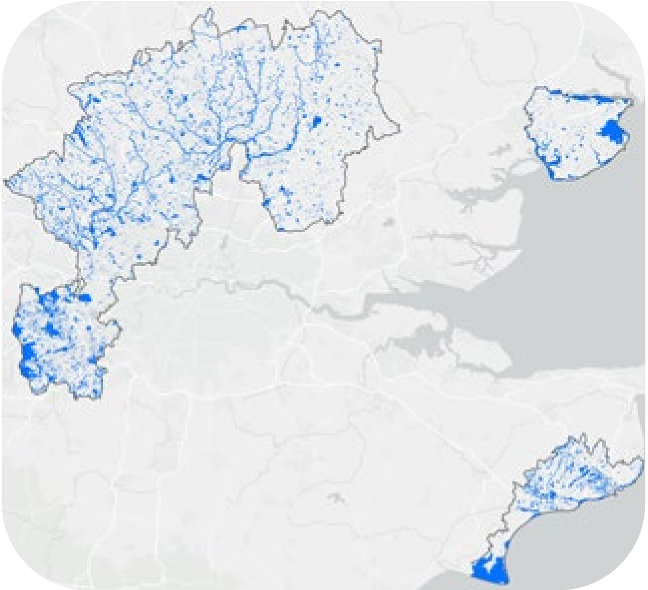


Figure 1 – Priority habitats, protected sites and chalk rivers[2]

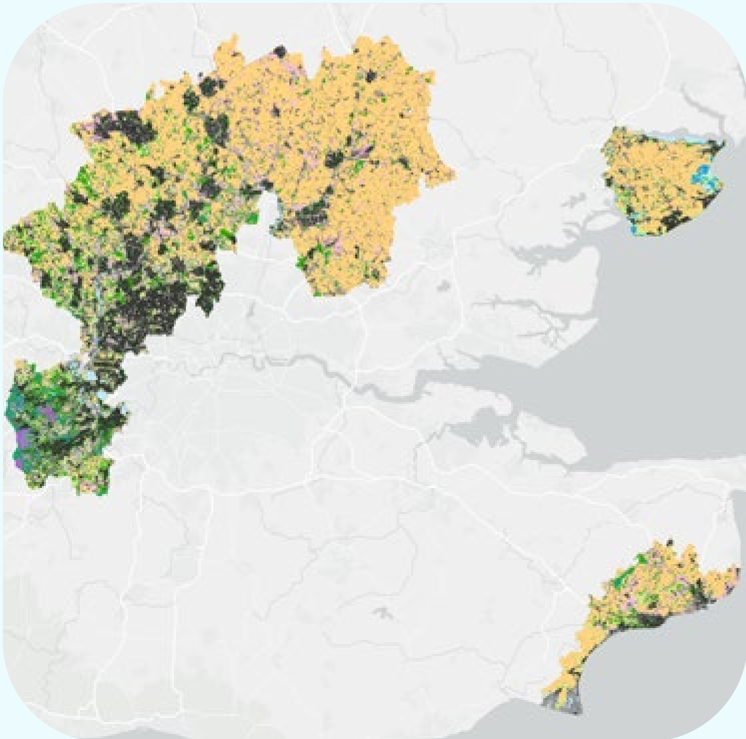


Figure 2 – Baseline habitats[1]

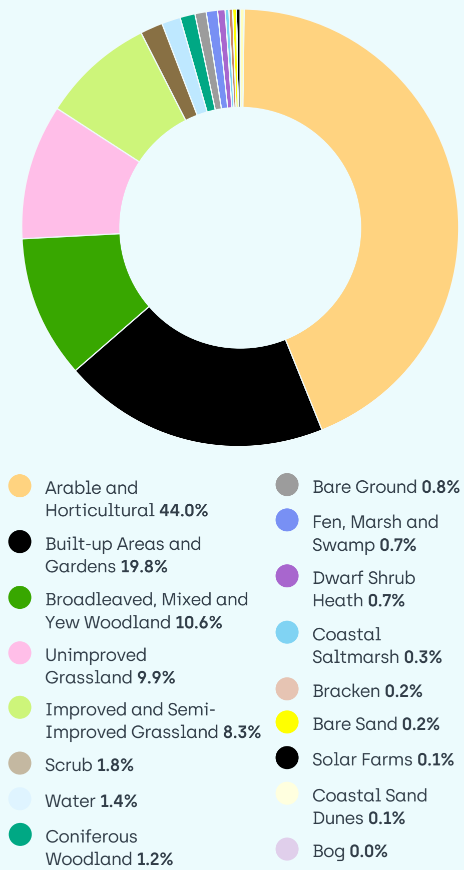


Figure 3 – Land use of our baseline habitats

1 Living England habitat map data, Natural England 2024. Contains public sector information licensed under the Open Government Licence.

2 Open spatial datasets: Priority Habitats Inventory (England); SSSIs (England); SPAs (England); SACs (England); Ramsar Sites (England); Chalk Rivers (England). Natural England. Licensed under the Open Government Licence.

Environmental Risk and Opportunity Report: Strategy continued

Impacts

The TNFD guidance sets out both positive and negative impacts to nature across the following impact drivers: land, freshwater and ocean use change; resource use and replenishment; pollution and pollution removal; invasive species introduction and removal and climate change. In reference to ENCORE* and supplementary TNFD guidance, the table below summarises the most material negative and positive impacts of our direct operations.

Impact category	Materiality	Negative impacts	Positive impacts
Land, freshwater and ocean use change	High	Freshwater abstraction and built infrastructure that reduces the condition and extent of habitats.	The reduction of unsustainable freshwater abstraction and environmental enhancement schemes that improve the condition and extent of habitats.
Resource use and replenishment	High	Inefficient use of water resources such as leakage, high PCC and high non-household consumption.	Reductions in leakage, PCC and non-household consumption. Environmental enhancement schemes that improve the flow regulation in catchments (e.g. groundwater recharge).
Pollution/pollution removal	Medium	Effluent discharges such as those to mains sewer or controlled waters, or unplanned discharges. Non-GHG air pollutants. Disposal of solid waste (e.g. to landfill).	Best practice across day-to-day operations that minimises harmful effluent discharges and air pollutants. Following the waste hierarchy that reduces waste to landfill.
Invasive non-native species ('INNS')	Medium	Any operational activities that increase the risk of INNS spread.	Best practice that reduces the risk of INNS spread and targeted INNS removal.
Climate change	Medium	GHG emissions from our operations.	GHG emissions reductions and environmental enhancement schemes that sequester carbon.

* Encore (encorenature.org) is an online tool that helps organisations explore their exposure to nature-related risk and take the first steps to understand their dependencies and impacts on nature.

Environmental Risk and Opportunity Report: Strategy continued

Risks

As a water company, our nature-related dependencies and impacts span a large geography. Given this, and the complex interactions between freshwater and terrestrial habitats, our nature-related risks are closely tied to land use in our catchments.

There is a strong overlap when assessing risk for TCFD and TNFD, with the former primarily focusing on how a changing climate can impact our business. Our TNFD assessment builds on this by recognising that a deterioration in nature can result in similar risks that further exacerbate those associated with a changing climate, as well as result in additional risks not accounted for. In future disclosures, we intend to enhance our quantification of nature-related risks and improve alignment with our climate risks.

Risk name	Category	Risk source	Description
1. Water availability	Physical	Habitat loss, changing climate	Impacts to flow regulation in catchments, reducing water availability and increasing the impacts of drought at times of dry weather.
2. Raw water quality	Physical	Habitat loss, diffuse and point source pollution, changing climate	Impacts to water purification in catchments and an increase in the quantity and mobility of pollutants. Increasing the likelihood for further treatment or outages from poor water quality.
3. Flooding	Physical	Habitat loss, changing climate	Impacts to the storage of water in catchments, altering the severity of flood events during high rainfall and increasing the likelihood of outage or damage to assets.
4.INNS	Physical	Multiple sources of introduction and spread	Potential to impact native species, as well as cause operational issues such as asset deterioration, poor water quality and availability, cost of monitoring and management.
5. Pollution	Physical	Operational activities	Unplanned discharges (e.g. to soil or water) that are not permitted, resulting in a Category 1 (major) or Category 2 (significant) incident.
6.Regulation	Transition	National policy and industry regulation	Changes to national environmental policy or industry regulation could result in changes to activities such as abstraction, drought management and pollution prevention.
7. Affordability and Environmental Policy	Transition	National policy and industry regulation	Challenges around willingness-to-pay, alongside broader national policy and funding for nature, could result in a continued funding gap. Therefore, the UK could fall short of its targets for nature, resulting in increased physical risks in our catchments.
8. Finance	Transition	Assessment of risk or performance by lenders	Greater exposure to nature-related risks or poor environmental performance impacts cost of or access to capital.

Opportunities

Similar to TCFD, our main nature-related opportunities lie in resource efficiency (through demand management) and operational resilience. We can strengthen operational resilience further by managing our impacts and risks through targeted environmental investment. This can help us avoid costs associated with:

- drought management;
- outage or investment in further treatment for deteriorating raw water quality;
- outage or damages to assets from flooding; and managing INNS.

Further opportunities include:

- building partnerships with landowners, farmers and NGOs, which can help scale and influence environmental outcomes when investing in our catchments;
- leveraging more nature-based solutions to improve access to green spaces and wellbeing benefits in society while enhancing biodiversity;
- the adoption of new technologies, such as remote satellite imagery, can direct and monitor restoration efforts;
- improved reputation and avoidance of penalties by reducing the likelihood of negative impacts (such as pollution); and
- improving access to cheaper forms of capital (such debt via green bonds) where the use of proceeds is allocated towards improving habitats and sustainable water management.

Environmental Risk and Opportunity Report: Strategy continued

River restoration – solution to environmental pressures

Many chalk rivers in our supply area have been modified over time to meet different human needs, which has led to reduced resilience to drought and flood events, further exacerbated by the effects of climate change. The River Colne is currently failing to reach Good Ecological Status, as defined under the Water Framework Directive ('WFD').

This project shows how we have addressed the morphological issues (physical shapes of river channels) on the River Colne by carrying out river restoration works to relieve some of the pressures it faces. This project aimed to restore natural chalk stream processes and the local habitat, helping the river become more resilient to high flows during the wetter months. As flood events become more frequent, we need to use the floodplain to help reduce flooding in populated areas.

These techniques addressed several challenges facing the river. These included reconnecting the floodplain where the river had previously been dredged and the dredged material left on the banks. It was once common practice for rivers to be dredged; however, this destroyed vital habitat and made our chalk streams less resilient to flood events. By installing berms (wet ledges) and hinging trees, we not only created variation in the flow but also narrowed the channel, creating ideal conditions for a diverse chalk stream habitat.

We also created backwaters, which provide valuable additional habitat and refuge for fish due to the still water conditions. The water level in the backwaters can vary depending on the level of the river.

B

Nature Strategy and Financial Planning

The EA issues the Water Industry Strategic Environmental Requirements ('WISER') every AMP, which is a strategic steer on the issues and opportunities water companies need to address in their environmental obligations. The primary way by which we fulfil these obligations and address our nature-related risks and impacts is through the Water Industry National Environment Programme (WINEP). Outside of WINEP are other regulated investments that aim to improve resilience.

These investments are initially identified and developed through the business planning process, informed by guidance from our regulators (Ofwat, the EA and the DWI). The financial profile, controls and delivery approach for these investments are then approved through the Price Review process.

A series of strategic plans and assessments typically inform these investments, such as:

- **WRMP** – projected supply-demand balance over 25 years and required demand-side and supply-side investments.
- **Drought plan** – vulnerability assessment of our sources, as well as triggers and response in the event of a drought.
- **Sustainable abstraction and WFD** – detailed investigations on the impact of abstraction on freshwater habitats and opportunities to restore rivers to their natural state.
- **Catchment risk assessments** – assessing various sources of risks to raw water quality from pollutants.
- **Habitat surveys** – assessing the extent and condition of habitats, predominately on our estate.
- **INNS surveys** – assessing the presence of invasive species on our sites and more broadly in our catchments.
- **Flood risk assessments** – assessing the risk of flooding to our assets in the event of high rainfall.
- **Asset condition** – various assessments on the condition of assets to inform capital maintenance, ensuring resilience supplies and prevention of pollution.
- **Climate adaptation** – holistic assessment of climate-related risks across plausible climate scenarios.

Environmental Risk and Opportunity Report: Strategy continued

C

Strategy Resilience and Scenarios

We developed our LTDS to ensure resilience under a range of plausible future pathways. These pathways factor in projections with various scenarios that enable us to understand our risks and impacts over an extended period of 25 years. Examples of scenarios include climate change, technological progress, demand for water, change to our abstraction regime and raw water quality. The financial implications of nature-related risks such as water availability, raw water deterioration, flooding and INNS are profiled over multiple AMPs.

Many of our investments aim to either deliver positive impacts to nature, reduce negative impacts to nature or enhance business resilience. Given our high standards on the security of supply for our customers, it is important to recognise that grey solutions will be required to adequately manage risk and ensure resilience. While many of our investments in enhancing biodiversity and delivering nature-based solutions are low regret, we are actively working with partners in the Water Sector to improve the business case for green solutions that restore nature.

We aim to improve our LTDS and scenario analysis by accounting more fully for changes in the extent and condition of nature. These scenarios could represent an accelerated decline in nature and ecosystem function to test the implications for business resilience. We understand that these changes have the potential to impair key ecosystem services on which the business depends on. Nationally, Defra's Natural Capital and Ecosystem Assessment programme is working to increase the quantity and quality of data on our natural capital (such as soil condition) to enable better evidence and decision making.

A recent report by Natural England[1] on the state of our natural capital in England detailed how freshwaters and wetlands were at high risk of impaired ecosystem function. The WFD classifications reflect this, whereby many surface water bodies in our region do not meet good ecological status because of many pressures. These pressures are because of activities in many sectors such as water, agriculture, industry, transport and general urbanisation. We can address these pressures by restoring naturally functioning headwaters and rivers, reducing pollution from multiple sources and better land-use planning.

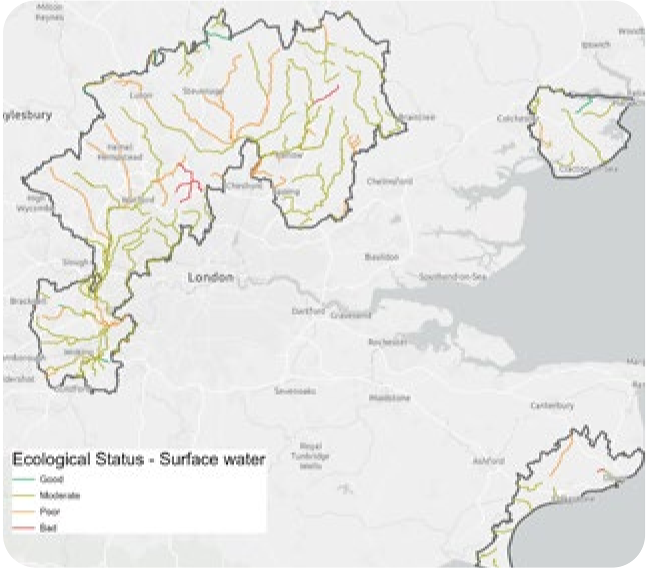


Figure 4 – Ecological status of surface water bodies[2]

D

Location of assets

Figure 5 illustrates the location of catchments where we abstract water from. Catchments such as the Lee Upper and the Colne are particular important for groundwater and the Maidenhead and Sunbury (Lower Thames) for surface water. Given this, these catchments account for a large percentage of our abstraction and, therefore, a higher concentration of assets. These catchments are most material when it comes to nature-related risks and impacts.

Our estate is approximately 1,500 hectares and makes up less than one percent of our entire supply area. This highlights the critical importance of working with third-party landowners and farmers to manage our dependency on nature. Therefore, a significant proportion of our investment in environmental enhancement goes towards third-party land.

1 Natural England, State of Natural Capital Report, 2024.

2 Water Framework Directive ('WFD') River, Canal and Surface Water Transfer Water Bodies Cycle 3 (Class 2) data. Environment Agency 2023. Contains public sector information licensed under the Open Government Licence.

Environmental Risk and Opportunity Report: Strategy continued

Figure 5 – Catchments where we abstract water (WFD management catchment)

To improve biodiversity across our estate, we have created management plans for many of our sites, which are nationally or locally designated for rare species. Our Biodiversity Team monitors and protects these sites and features. In AMP8, the biodiversity performance commitment is a new target that requires all companies to improve biodiversity across their land holdings and supply area. We are working to meet our target by setting aside areas of company land and managing them specifically for biodiversity. On these pieces of land, we are creating new habitats, including woodlands, ponds and wetlands.

Estate – Natural Capital Benefits

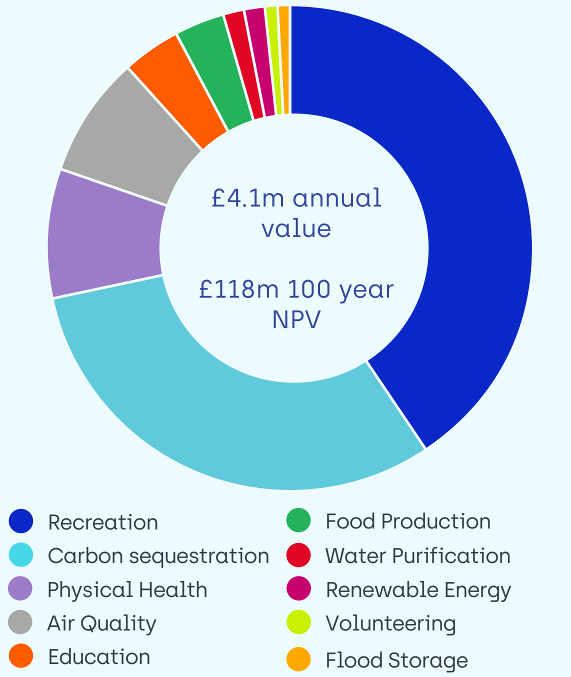


Figure 6 – Estate Natural Capital Accounts (benefits in addition to water provision)

Investing in habitat creation delivers biodiversity outcomes and wider benefits too. To understand this picture better, we produced a natural capital accounts for our estate in 2023. This work initially established a baseline for habitat extent and condition, then assessed a variety of benefits (ecosystem services) to Affinity Water, our customers and other beneficiaries. In addition to the provision of drinking water to our customers (approximately 965 million litres per day), our estate also provides a series of wider benefits valued at £4.1 million annually (£118 million at 100-year NPV). Wider benefits include sequestering carbon, improving air quality, recreation and physical health.

Environmental Risk and Opportunity Report: Strategy continued

Future focus

We are reviewing requirements for aligning reporting to Carbon Disclosure Project ('CDP') within AMP8. CDP is the world's most widely used database of organisational environmental impact information.

We continue to strengthen our understanding and capability for removing carbon from the atmosphere through both insetting and offsetting approaches. We recognise that some emissions, such as those associated with essential chemical use, will remain unavoidable and will therefore require high-quality offsets for us to reach Net Zero. Our future priority is to develop a comprehensive Carbon Removals Strategy that sets out how we will deliver credible and lasting carbon removal.

We will continue to prioritise reducing the whole-life carbon impact of our capital delivery programme. We have already embedded the principles of PAS 2080, the standard for managing whole life carbon, into projects across this five-year period. Looking forward, we will continue to build on this progress as we work toward achieving PAS 2080 accreditation by 2030. This will support our long-term ambition to reduce emissions across the lifecycle of our assets and strengthen the sustainability of our investment programme.

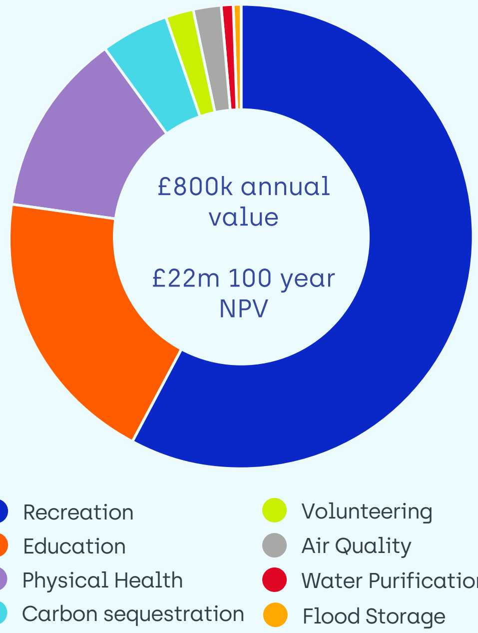
We aim to quantify the transition risks posed under our selected NGFS scenarios for future TCFD and TNFD reporting.

We aim to enhance future TNFD disclosures by improving our data on the condition of habitats, provide more context on our positive and negative impacts and improve how we account for nature-related risks in our long-term scenarios. Furthermore, we will be updating and improving our natural capital accounts for our estate.

Providing societal benefits

Stocker's Lake, in Rickmansworth, is one of our community sites accessible to the public and designated as a Local Nature Reserve. It is an important habitat for birds, fish and plants. As a site open to the public, it provides significant societal value to the local community in the form of recreation, education and physical health. Activities such as walking, fishing and birdwatching are regularly enjoyed here.

Stocker's Lake – Natural Capital Benefits



Environmental Risk and Opportunity Report: Risk and impact management

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

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

B Describe the organisation's processes for identifying and assessing climate-related risks.

C Describe the organisation's processes for identifying and assessing climate-related risks.

Describe the process used by the organisation to identify, assess, prioritise and monitor nature-related dependencies, impacts, risk and opportunities.

A Describe how processes for identifying, assessing, prioritising and monitoring nature-related risks are integrated into and inform the organisation's overall risk management processes.

B Describe the organisation's processes for identifying, assessing and prioritising nature-related dependencies, impacts, risks and opportunities in its direct operations.

C Describe the organisation's processes for managing nature-related dependencies, impacts, risks and opportunities.

Introduction

This section explains how we identify, evaluate and manage climate and nature-related risks, impacts and dependencies across our operations and value chain. By integrating TCFD and TNFD approaches, we apply consistent processes to monitor emerging issues, assess their potential effects on the business, and prioritise actions that build resilience. It also outlines how our risk management systems, internal controls and operational practices are used to mitigate negative impacts, strengthen adaptation and capture opportunities linked to climate and nature.

Progress this year

We have included our material climate and transition risks in the corporate risk register. These risks are communicated at a senior management and ELT level, the ELT, through regular reviews and horizon scanning exercises. The Risk function owns and manages the corporate risk database, provides internal consultancy to the operational business and decision support services to management. ARAC reviews senior management's work on risk management at least six-monthly, and reports to the Board.

We have embedded the tracking and monitoring of progress in delivering actions set out within our AMP8 action plan from our last Climate Adaptation Report.

This year, we also developed a work programme to improve our understanding of risks at a more granular level, initiated by a project to understand our resilience to flooding across our asset base and its impact on our customers. This programme aims to deliver investment in risk reduction based on value to customers.

We continue to deploy and develop our short-term monitoring and assessment of key physical risks such as drought, raw water quality, flood risk and invasive species.

Future focus

In addition to continuing to deliver our core investments for AMP8, we aim to apply this year's flood-resilience approach to other climatic hazards and assess their impact on customers.

We intend on working with others in the industry and the utilities sector to develop greater awareness of the interdependencies of physical climate and nature and transition risks.

We will develop detailed mitigation plans for our key transition risks and incorporate them into a Transition Strategy.

Where else to look

See principal risks and uncertainties section including our approach to risk on pages 69 to 76

See the viability statement on pages 77 to 80

C C

Integration of climate and nature-based risks within our organisation

We have comprehensive systems of internal control and risk management, and we monitor their effectiveness regularly in compliance with the principles of the 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 third parties externally assure. Our Risk Management Framework and guidance specifically include risks relating to climate change and nature. We maintain a formal risk register and risk management system for identifying, evaluating and mitigating risks.

Environmental Risk and Opportunity Report:
Risk and impact management continued

All risks are assessed using consistent scoring criteria. Impacts are assessed considering several criteria: financial, health and safety, interruption of services, water quality, environmental, legal and regulatory and customer communications.

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

Audit, Risk and 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

A A

Processes for identifying, assessing and managing climate and nature risks

Physical risks

In 2024, we updated our physical risk scoring methodology in line with Defra's Adaptation Reporting guidance. We identified priority physical and transition risks from climate change and how they affect operations impact our functions and activities across the business. We identified mitigations and monitoring plans to adapt to climate change impacts. As a result, we scored each physical risk under five scenarios:

i. present-day (2025) risk score
ii. risk score in 2050 under a central (+2°C) warming scenario
iii. risk score in 2075 under a central (+2°C) warming scenario
iv. risk score in 2075 under a high (+4°C) warming scenario
v. target risk score in 2050, considering our planned actions and commitments within our 2025–30 PR24 business plan, our 2025–50 LTDS and our 2025–75 WRMP24.

We record physical climate and nature risks as a principal risk in our strategic risk register and consider them in the viability statement's stress testing. 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 on pages 77 to 80.

As part of the Corporate Risk Framework, we carried out 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. We selected horizons of 2050 and 2075 to reflect mid-century risk, and near end-of-century risk to align with our existing plans (LTDS, WRMP2024 and TCFD for physical risks), and Water Resources South East's regional plan.

To enhance our risk reporting process, we compiled information from our latest plans and engaged with internal stakeholders and experts through workshops and interviews.

Improving our prioritisation of flood alleviation

We have historically assessed flood risk by reviewing where our sites have previously experienced flooding. This year, we have developed a new process that uses future flood risk projections, including the impacts of climate change, to identify the sites most at risk.

We have aligned this improved approach with our Asset Resilience Tool, which evaluates the resilience of our sites at a system level and considers the potential impacts on our customers.

This updated process has enabled us to design a flood alleviation programme that prioritises investment where it can deliver the greatest benefit for the communities we serve.

Environmental Risk and Opportunity Report:
Risk and impact management continued

Transition risks

In our 2024 Climate Change Adaptation Report, we identified measures to manage and adapt to both the updated physical and transition risks. In addition, we completed preliminary scoring of transition risk by assessing risks under three scenarios for:

i. present-day conditions
ii. risk in 2030s
iii. risk in 2030s with mitigating actions

Evaluating transition risks helped us identify interdependencies with physical risks, while also evaluating risks related to our services and functions, such as supply chain vulnerabilities and reputational risks. However, the long-term impact of transitional risks on the company remains less certain, as these risks depend not only on the pace of the UK's transition to a low-carbon economy but also on the broader global shift towards a zero-carbon economy.

Following our climate adaptation reporting, we held a workshop to appraise how the rate of transition to total Net Zero may exacerbate these transition risks for us and potentially jeopardise our target of reaching total Net Zero by 2050. This is described further in the 'Strategy' section of the TCFD.

This year, we have included our six material physical and transition risks within our corporate risk register. We assigned dedicated risk owners to these risks, whose responsibility it is to ensure that the controls identified within our action plan are implemented.

Climate change analysis in our WRMP

In October 2024, we published our final WRMP24, outlining our plans to provide a reliable, resilient, efficient and affordable water supply to our customers between 2025–75, and setting out how we intend to maintain the balance between water supply and demand. We evaluated the impact of climate change on supply 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.

Our published PR24 business plan considers the financial impacts of risks to our ODIs and return on regulatory equity ('RoRE').

Monitoring our risks

Our day-to-day operational teams and processes enable us to proactively monitor climate and nature risks. This means we can escalate and respond quickly to emerging issues, as well as acquire data to support long-term planning and further strategic assessments in the future for climate and nature. We identify and monitor risks in the following ways:

- **Water resources and drought** – monitoring and forecasting groundwater and surface water levels relative to drought triggers.
- **Raw water quality** – conducting catchment risk assessments and water quality sampling for pollutants. Deploying remote satellite imagery to detect land use change and emerging risks.
- **Flooding** – monitoring warnings for imminent flood risk, continuously improving our understanding of fluvial and pluvial flooding, and reviewing flood management plans.
- **INNS** – conducting surveys and risk assessments at our sites for INNS, as well as engaging with catchment partners to investigate the presence of INNS more widely in catchments.

As a strategic leading indicator of risk, we periodically review trends across the climate change scenarios to highlight how shifting climate conditions may influence our long-term risk profile and the level of investment required under our benign or adverse scenarios.

B B

Managing our risks

Our investments reflect how we manage and reduce our climate and nature risks by enhancing business resilience (through grey and green solutions). Furthermore, they aim to deliver outcomes for nature by managing our positive and negative impacts. Our key investments are the following:

- **Water resources investments that enable us to use water efficiently, improve drought resilience and improve freshwater habitats:**
  - Demand-side investments that reduce leakage, PCC and non-household demand.
  - Supply-side investments to deliver new sources of supply and network enhancements such as transfers and increasing the deployable output of sources.
- **Environmental enhancement that deploy nature-based solutions and improve outcomes for nature:**
  - **Biodiversity** – enhancing and maintaining sites for purposes of species and associated habitats. Many of these designated as protected sites under national legislation.
  - **INNS** – monitoring and management of INNS on our sites, as well as broader community engagement to remove INNS in the wider catchment.
  - **River restoration** – restoring rivers to their natural state by addressing morphological improvements, barriers, riparian habitat and more.
  - **Catchment management** – working with farmers and landowners by using nature-based solutions that can help address diffuse pollution, regulation of flows (surface water and groundwater) and flood risk.
  - **Sustainable abstraction** – investigating and reducing abstraction where it is deemed harmful to the ecology.

Environmental Risk and Opportunity Report: Risk and impact management continued

- **Enhanced treatment facilities to manage the risk of raw water deterioration:**
  - Treatment upgrades to address pollutants such as nitrates, pesticides and PFAS.
  - Where nature-based solutions cannot fully address rising pollutant levels and risks to drinking water standards.
- **Enhanced property-level resilience to manage the risk of flooding:**
  - Further assessments of flood risks and implementation of property-level measures and flood management plans.
  - Where nature-based solutions cannot fully address flood risk to assets.
- **Pollution prevention:**
  - Delivering capital maintenance to maintain high standards of asset condition.
  - Improving the competency of operational teams when avoiding and managing potential pollution incidents.
  - Diligent reporting of incidents to identify root causes and lessons learned.

Future focus

We will continue our programme of granular site risk assessments for a wider range of physical climate hazards using our scalable methodology, allowing for differing climate hazards to be prioritised against each other. This will allow us to develop stronger business cases for climate adaptation within our business planning strategy, tackling the highest priority risks, while ensuring affordability for our customers.

We aim to further our assessment of interdependencies with key stakeholders in relation to climate and nature related risks. This includes expanding collaboration with our energy providers to better understand cascading risks, such as how climate driven physical hazards could lead to power disruptions affecting our operations.

We also plan to develop a greater understanding of compounding and concurrent risks to identify potential worst case scenarios where single or multiple hazards impact several sites simultaneously. This work will enable us to strengthen contingency planning and enhance operational resilience across our estate.

Furthermore, following the redevelopment of our Net Zero Strategy, we intend to develop a comprehensive transition plan. This plan will outline our pathway to a Net Zero future and set out the measures we will take to manage and mitigate our most material transition risks.

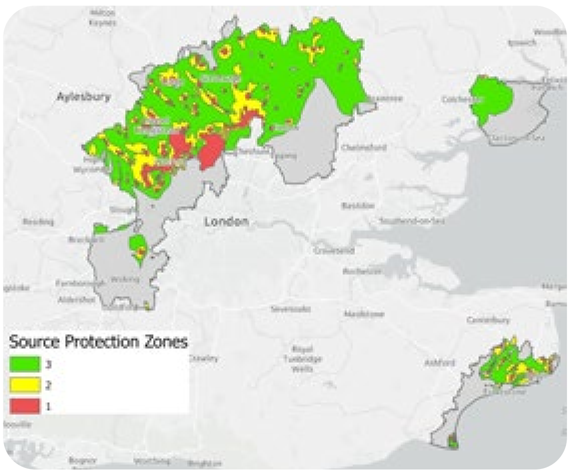
Catchment management and nature-based solutions

Last AMP, we delivered a winter cover cropping scheme in collaboration with farmers in North Hertfordshire and South Cambridgeshire to reduce nitrates leaching and increase sediment retention. Across 800 hectares, we calculate an uplift in annual natural capital benefits of £540k (or £670/ha) in such as attenuating water, water quality, soil health and air quality.

This AMP, we are delivering more nature-based solutions to help manage risk of diffuse pollution and deliver wider benefits. Examples include improving soils in agriculture, agroforestry and improved grasslands. Datasets such as Source Protection Zones ('SPZs') can help inform actions for us and our partners to ensure we target areas of high risk. The Environmental Agency have defined SPZs as zones which show the level of risk to the source from contamination. Sources include wells, boreholes and springs, all valuable assets of Affinity Water.

gov.uk/guidance/groundwater-source-protection-zones-spzs

The map divides the area into Zones 1, 2 and 3 to indicate relative priority. Zone 1 represents lower-priority areas, Zone 2 represents medium-priority areas, and Zone 3 represents higher-priority areas.



Environmental Risk and Opportunity Report: Metrics and targets

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

- **B** Disclose Scope 1, 2, and, if appropriate, Scope 3 GHG emissions, and the related risks.
- **B** Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
- **C** Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Disclose the metrics and targets used to assess and manage material nature-related dependencies,

- **A** Disclose the metrics used by the organisation to assess and manage material nature-related risks and opportunities in line with its strategy and risk management process.
- **B** Disclose the metrics used by the organisation to assess and manage dependencies and impacts on nature.
- **C** Describe the targets and goals used by the organisation to manage nature-related dependencies, impacts, risks and opportunities and its performance against these.

Introduction

This section outlines the metrics we use to measure our climate and nature-related performance, alongside the targets set to drive progress. By integrating TCFD and TNFD principles, we apply consistent indicators to track emissions, resource use, ecosystem impacts and key nature-related dependencies. It also explains how targets support our strategic objectives, inform decision making and enable transparent monitoring of progress toward a resilient, sustainable future.

Progress this year

We completed a pilot programme with our largest suppliers to understand their GHG reporting capabilities and identify key areas where we can reduce our Scope 3 emissions. This project also identified where we can improve our sustainable procurement practices and have been included within the development of our sustainable procurement practices.

Last year, we developed our ESG Scorecard based on our materiality assessment (see page 28), which has enabled our owners, stakeholders and customers to assess our sustainability and ESG performance. This scorecard continues to be integrated into the ESG Board Committee's framework and is continually improved to ensure that we are driving improvements across a range of metrics.

We are continually improving the accuracy of our GHG emissions reporting and this year we have completed a company-wide commuting survey to ensure greater accuracy of our reporting.

Future focus

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

We will define targets for material transition risks identified and consider quantitative analysis to better understand the financial implications of transition risks.

We aim to use our carbon reduction pilot project to define targets for carbon reduction across our capital delivery programme. This target will be utilised as targets for our delivery framework providers.

We aim to develop a greater range of targets for Scope 3 emissions reductions following the completion of our updated Net Zero Strategy.

B

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. This target covers Scopes 1 and 2 (market-based) and Scope 3 categories which relate to business travel, outsourced services relating to IT and admin, waste and electricity transmission, and distribution.

Due to the challenges to decarbonisation of the largest industry-wide investment programme, such as the risk of emerging contaminants, the targets for Net Zero are shifting to be aligned with the UK Government's target of Net Zero by 2050. This target includes emissions from a wider range of sources, including those from our supply chain.

In 2023, we took the decision to stop paying the high price for a green electricity tariff, as we felt this did not offer the best value for customers and comes at the expense of other opportunities to invest in delivering customers' priorities. As a result, our reported Scope 2 GHG emissions have increased since 2023. We will continue to focus on energy efficiency to reduce our Scope 2 emissions whilst the UK Grid is decarbonising. 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.

Environmental Risk and Opportunity Report: Metrics and targets continued

A summary of our GHG emissions

Scope		2023/24 tCO_2e	2024/25 tCO_2e	2025/26 tCO_2e	Comments
Scope 1		4,995	5,244	4,813	We continue to decrease our direct GHG emissions through sustainability improvements we are making to our sites and operations, such as our transition to electric vehicles and replacing diesel consumption with lower-carbon alternatives.
Scope 2	Market-based	39,500	82,598	83,500	Our market-based emissions have increased due to us purchasing standard electricity, rather than a green tariff which did not provide the best value for our customers.
	Location-based	45,053	45,852	39,526	
Scope 3		123,941	111,675	135,483*	Our Scope 3 emissions have increased as a result of delivering a larger programme of works this AMP. This year, we have further engaged external providers to help us improve our Scope 3 emissions disclosure. We have also completed an organisation-wide survey to improve the accuracy of our employee commuting emissions.
Total	Market-based	168,436	199,517	223,796*	Our total emissions for 2025/26 have increased, largely because of greater emissions from Scope 3 as a result of delivering a larger programme of works this AMP. This is despite a reduction in our Scope 1 and location-based Scope 2 emissions.
	Location-based	173,989	162,771	179,822*	

*Our Scope 3 emissions for 2025/26 have not been assured to ISO14064-1 at the time of publication.

We used a combination of methods to estimate our GHG emissions, following the principles of the 2015 GHG Protocol Corporate Accounting and Reporting Standard. We estimated operational emissions using the water industry Carbon Accounting Workbook. 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 applied method for calculating emissions by applying an emission factor to activity data, such as fuel consumption. Our reporting of these emissions have been verified to ISO14064-1 standards, and have been audited as part of our annual performance report.

For Scope 3, we commission a specialist to compile our inventory. They use activity data where available and apply emission factors from publicly available database. Where activity data is unavailable, they use alternative data and methods to calculate emissions – this includes using spend based data or recognised benchmarks. This inventory is provisional and will be assured to ISO14064-1.

This is our third year of reporting estimated Scope 3 emissions across all material categories. As Scope 3 emissions are inherently less structured, we remain focused on enhancing the accuracy and robustness of our reporting.

During the year, as part of our ongoing commitment to continuous improvement, we reviewed our methodology

Minimising the carbon impact of PFAS treatment

This year, changes to water quality regulations for PFAS chemicals required us to invest in additional treatment facilities across more of our sites. The established method for removing PFAS is the use of granular activated carbon ('GAC'), which carries a significant carbon impact due to the energy intensive processes involved in its production and regeneration.

To address this, we have focused on reducing the carbon impact of PFAS treatment by trialling lower carbon GAC produced from coconut sources and by testing ion exchange treatment processes. The ion exchange technology has the potential for reductions in carbon emissions when compared with conventional GAC, while continuing to provide effective removal of PFAS and managing the associated water quality risks.

These trials are helping us identify treatment solutions that protect public health while also supporting our wider commitment to reduce operational emissions.

Environmental Risk and Opportunity Report: Metrics and targets continued

and reassessed the emissions factors applied to spend-based estimates. These enhancements have led to an increase in our reported Scope 3 emissions.

To ensure alignment with best practice and enable a consistent, like-for-like comparison over time, we have recalculated our 2023/24 and 2024/25 emissions using the updated 2025/26 methodology. As a result, Scope 3 emissions for these years have increased by 14% and 10%, respectively.

This year, we have continued our focus on improving our emissions reporting by engaging with our tier 1 delivery partners to move to more supplier-specific emissions. We are continuing work to better understand all GHG emissions that the company is responsible for across Scopes 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.

The updated emissions factors and methodology for 2025/26 will undergo ISO 14064-1 verification following the publication of this annual report.

We do not currently use carbon offsetting to reduce our GHG emissions.

Our metrics and targets for management of our climate risks and opportunities

A C

For 2025/26, we will continue to develop metrics and targets for the material physical and 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. These metrics and targets will support wider business resilience, with potential for such indicators to be linked to remuneration in future reporting periods. The table below sets out selected metrics we will use to monitor and mitigate climate-related risks.

We use some of these targets and metrics, such as biodiversity, to monitor our progress in mitigating both climate and nature-based risks.

Physical risks

Our Adaptation Report identifies several metrics and targets relevant to key physical climate risks, as highlighted within Overview of our physical and transition risk scores on page 37.

Our physical climate change metrics

Material physical risk	Performance metric	2023/24	2024/25	2025/26	2030 target	2050 target
1,2,3,4	Leakage – % reduction of three-year average of leakage from 2019/20	18.30%	19%	19.70%	31%	44.10%
1, 2, 3	PCC – % reduction of three-year average PCC from 2019/20 baseline	-1.50%	-0.60%	0.10%	12.90%	>12.9%
1, 2, 3	Business demand – % reduction of three-year average PCC from 2019/20 baseline	9.30%	7.30%	8.00%	11%	7.30%
1, 2	Average time properties experience low pressure	01:47:09	01:55:57	03:09:27	01:43:43	00:45:00
2, 6	Biodiversity units per 100km^2 of business company land	N/A	N/A	0.11	1.73	1.02
1, 2, 3, 4, 5, 6	Water supply interruptions (hours: minutes: seconds per property per year)	00:02:46	00:03:21	00:04:35	00:05:00	00:03:58
1, 2, 3, 4, 5, 6	Unplanned outage (% of peak week production capacity)	1.42%	1.45%	1.14%	2.14%	1.50%
1, 2, 3, 4, 5	Mains repairs (per 1,000km of main)	98.3	113.4	140.2	132	123
6	Discharge permit compliance	N/A	100%	100%	100%	N/A
6	Number of serious pollution incidents (Category 1 and 2)	0	0	0	0	0
6	Customer contacts about water quality	0.58	0.60	0.72	0.67	0.67
1, 2, 3, 4, 5, 6	Operational GHG emissions (tonnes of CO_2)	70,317	74,967	73,158	74,659	N/A
1, 2, 3, 4, 5, 6	Whole life carbon (% reduction of tonnes of CO_2e from baseline)*	N/A	N/A	N/A	14%	N/A

The reporting of these metrics follows the methodology from our annual regulatory reporting to Ofwat.

* We are still developing our processes for highlighting whole life carbon reduction, aligning with PAS2080 principles, and is not reported to Ofwat.

Environmental Risk and Opportunity Report: Metrics and targets continued

Transition risks

We have defined our transition risks (see Strategy) and are planning to investigate pilot metrics to manage them in 2025/26.

This year, as we redevelop our Net Zero Strategy, we will explore enhancement of our metrics and targets to better monitor and manage our transition risks. We have identified the metrics included in the table below:

Transition risk	Performance metrics under consideration
T1	**Energy consumption per megalitre of water output ('kWh/Ml')** – Monitoring our progress in enhancing energy efficiency, reducing our carbon intensity, and reducing our exposure to volatile energy prices
T2	**Regulatory penalties linked to climate impacts/objectives (£/yr)** – Monitoring costs incurred if we fail to invest in climate resilience, adaptation, and mitigation
T3	**Reduction in Scope 1 and Scope 2 GHG operational emissions from 2024/25 baseline (%)** – Monitoring our progress with reducing our exposure to policy change linked to Net Zero
T4	**Tier 1 suppliers that have agreed to our Supplier Code of Ethics (%)** – Monitoring our supply chain's readiness and capacity to deliver Net Zero
T5	**Customer experience ('C-MeX')** – Monitoring customer satisfaction and trust which could be affected by our climate change performance
T6	**A measure of customer affordability e.g. % of satisfied customers on social tariffs** – Monitoring our progress with balancing affordability alongside investment in climate resilience, adaptation, and mitigation

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 tree planting. We are continuing to work with farmers within our supply area to quantify the carbon benefit of initiatives and are investigating how we can quantify the carbon captured in their soils. We will be conducting further research and feasibility investigations into opportunities for carbon capture and seek to align this with our Water UK pledge to plant 110,000 trees by March 2030.

Our existing solar assets have generated 3.6mWh, resulting in 1.6% of our energy consumption for the year. We are currently developing a strategy for extending this programme to maximise our ability to generate renewable energy for our operations.

Investment delivery

Our PR24 business plan sets out our most ambitious plan yet, with a Final Determination allowance investment of £2.1 billion between 2025–30, to ensure we can meet the challenges we face and take care of our environment for our communities now and in the future.

Included within this business plan is an £8.6 million uplift for climate change resilience. This investment is for the mitigation of the highest flooding and power resilience risks, due to climate change, for our customers to be considered as initial steps towards fully monitoring these risks. This year, we have developed a process for assessing our resilience to flooding to prioritise this investment in the highest-value solutions for our customers.

This year, we saw increased water demand, resulting in an increase in our energy consumption. To reduce this demand, and improve our resilience to water resources challenges, this year we have installed over 103,000 smart meters across our customers.

As part of our ongoing efforts to reduce our energy consumption, this year, we have continued to invest in our pump efficiency programme which has resulted in a further reduction of 1.49GWh/year. This year, we have invested over £700k on the installation of electric vehicles charging units at our sites. This has enabled us to transition 85 vehicles within our fleet to electric.

Remuneration

For the period of AMP8 (2025-30) the company established a Long-Term Incentive Plan (LTIP) that is intended to incentivise executives to achieve long-term shareholder value whilst achieving high levels of customer experience performance. The LTIP measures are linked to long-term performance requirements, as well as to customer and environmental service levels.

The Remuneration Committee, on behalf of the Board, has approved the proposed structure, metrics and targets for the LTIP schemes covering AMP8, which incorporate an element of climate change and nature. 10% of the AMP8 scheme is linked to Environment Improvement Programme and number of WINEP actions completed. Another 10% to the environmental performance split equally between biodiversity target (number of sites with increase in biodiversity units delivered and surveyed at four yearly intervals) and operational GHG emissions reduction target. Management performance reports on these metrics are submitted to the Remuneration Committee on behalf of the Board. See the Remuneration Committee report on pages 114 to 132 for more details on how the company performed against its targets.

Environmental Risk and Opportunity Report: Metrics and targets continued

Nature - Our metrics and targets for management of nature-related dependencies, impacts, risks and opportunities

A B C

Our nature metrics and targets

Our investments for nature WINEP are constructed in close collaboration with our regulators and informed by guidance for the Water Sector, as well as series of strategic plans and assessments (see our Strategy section). Some of our investments are informed by statutory drivers, with others being informed by cost benefit assessments and research on customer willingness to pay. Whilst our customers show good support for improvements in the environment, we have the significant challenge of ensuring bills remain affordable. We will continue to work closely with regulators and our customers to strike this balance, whilst directing investment in nature in ways that can scale the impact we have, ensuring each pound delivers more value. Furthermore, we aim to influence and improve how the industry positions the business case for nature, so that we can justify higher levels of investment and improve the resilience of our catchments.

This initial set of metrics reflect some of our nature-related dependencies, positive and negative impacts and opportunities.

TNFD category	Metric	2025/26 & AMP8 outlook
Dependency	Total surface area controlled/ managed by Affinity Water	Our estate is approximately 1,500 hectares.
Dependency	The spatial footprint of the watershed/catchment land which Affinity Water depends on	Our supply area is approximately 450,000 hectares.
Dependency	Water abstracted (Ml/y)	Our abstraction can typically average at around 950 million litres per day.
Dependency	WFD status of surface and groundwater bodies in our region	129 WFD surface waterbodies in our supply area with the following counts for WFD status (2022): • Good status – 7 waterbodies • Moderate status – 91 waterbodies • Poor status – 28 waterbodies • Bad status – 3 waterbodies Most prominent environmental pressures reported are point source and diffuse pollution, physical modification, flows and invasive non-native species. Activities from various sectors are listed as key contributors to these pressures. These sectors are agriculture, water supply and wastewater, urbanisation, transportation and industry.
Impact- Land/ freshwater/ ocean-use change	Area with investments for nature restoration (ha)	Across our Catchment Management and Biodiversity programmes, the total areas of investment for nature restoration in year 1 is approximately 3,500 hectares. This accounts for: • Managing sites specifically for biodiversity enhancements • Removal of invasive species • Cover and companion crops • Nature-based solutions
Impact- Land/ freshwater/ ocean-use change	River restoration projects	In the first year of AMP8, we completed four river restoration projects on the Cam and the Brett, as well as one smaller AMP8 project on the Colne. For the remainder of AMP8, we will design and deliver a series of further projects across 33 waterbodies.

Environmental Risk and Opportunity Report: Metrics and targets continued

TNFD category	Metric	2025/26 & AMP8 outlook
Impact- Land/ freshwater/ ocean-use change	Abstraction reduction (Ml/d)	As of the 31 March 2025, we have reduced the volume of water we take from the environment by 38.34 million litres per day (Ml/d) across seven catchments – Upper Chess, Ver, Misbourne, Mimram, Upper Lea, Cam and Brett. In AMP8, our plans include a further 35 million litres per day (Ml/d) reduction in groundwater abstraction by 2030.
Impact- Land/ freshwater/ ocean-use change	Number of INNS removal projects	From our INNS Out funding scheme in year 1, we awarded funds to 27 INNS projects. In addition to this, we treated 24 sites for INNS on company-owned land.
Impact - Resource use/ replenishment	Leakage reduction	See TCFD metrics.
Impact - Resource use/ replenishment	PCC reduction	
Impact - Resource use/ replenishment	Business demand reduction	
Impact - Pollution/ pollution removal	Discharge permit compliance	
Impact - Pollution/ pollution removal	Number of serious pollution incidents (Category 1 and 2)	
Opportunity	Amount of capital expenditure deployed towards nature-related opportunities (£)	For AMP8, our total environmental enhancement budget is approximately £145 million to deliver the following: • Implement sustainability reductions • Conduct further investigations on sustainable abstraction • River restoration • Biodiversity & INNS • Catchment management and nature-based solutions

Future focus

As part of our ambitions for PAS 2080 accreditation, we aim to develop targets for carbon reduction for our capital delivery programme. This is following a pilot project initiated this year investigating opportunities for carbon reduction across a subset of our capital delivery programme. These targets will be utilised in our engagement with our delivery partners to drive capital carbon reduction and embed a low-carbon focus across the organisation.

Over the coming years, we will continually review and enhance the metrics and targets we use to monitor and assess progress on managing climate, transition and nature risks and opportunities.

As we review our Net Zero Strategy, aligning with the UK Government's 2050 target, we will review further metrics and targets for driving the reduction in Scope 3 emissions.

Following our engagement with Tier 1 suppliers, we aim to continue our work to improve our Scope 3 reporting by engaging with our wider supply chain. These works will initially prioritise our suppliers with the largest impact on our Scope 3 emissions.

In future TNFD disclosures, we will enhance our metrics and targets as improvements are made in national datasets on the extent and condition of our habitats and how this impacts ecosystem services in our catchments. Furthermore, we aim to improve the resolution of our materiality assessments to enhance the view of positive and negative impacts from our operations.

Financial review

"In the past 18 months we have delivered a step change in resilience for all the stakeholders of Affinity Water. In AMP 8 we are undertaking our largest and most ambitious investment programme looking to stay ahead of a changing environment. This could only be achieved with the improvements we have made to our financial resilience, with the support of our shareholders, by providing ample liquidity to fund this growth, reaffirmed credit ratings amongst the best in the sector and a strong balance sheet."

Adam Stephens
Chief Financial Officer

Key highlights

- Improved financial performance, with operating profit increasing by 125% to £74.7 million (2025: £33.2 million).
- Revenue growth of 20.5% to £438.3 million, driven by inflationary tariff increases and customer growth.
- Delivered gearing of 69.1% against a target of around 70%, demonstrating disciplined capital management and providing additional headroom to support financial resilience.
- Ratings maintained at A3/BBB+/BBB+, among the strongest in the sector.
- Robust liquidity and covenant headroom – financial covenants met.
- Financial resilience strengthened – £150 million equity received in February 2026.
- Fair Tax Mark Certified – re-awarded for our continued commitment to responsible tax practices.

FY26 overview – operational and financial highlights

FY26 marked the first year of AMP8, with strong financial performance and investment delivery, alongside continued focus on water quality and environmental stewardship, while improving the services delivered to customers.

FY26 has seen a step change in delivery, with the company achieving its highest-ever capital investment to support long-term resilience in an increasingly complex operating environment.

Financial performance

Financial performance strengthened in the year, with higher operating profit driven by strong revenue growth and disciplined cost control. As a result, the company reported a significantly reduced loss after tax of £6.2 million (2025: £16.8 million loss). The improvement was partially offset by higher finance costs, mainly reflecting inflation-linked indexation on debt and related accretion charges, as well as increased borrowings.

	2026 (£m)	2025 (£m)
Revenue	**438.3**	363.6
Operating costs	**(384.6)**	(350.5)
Other income	**21.0**	20.2
Operating profit	**74.7**	33.2
Net finance costs	**(82.4)**	(50.9)
Fair value gain/(loss) on energy swaps	**6.1**	1.4
Loss before tax	**(1.7)**	(16.2)
Taxation	**(4.5)**	(0.6)
Loss for the year	**(6.2)**	(16.8)

Revenue

Revenue increased by £74.7 million (20.5%) to £438.3 million (2025: £363.6 million). Growth was driven by allowed tariff increases to fund our substantially higher investment, an increase in customer numbers, annual inflationary uplifts, and higher water consumption during the hot, dry period experienced in 2025.

Financial review continued

Operating expenditure

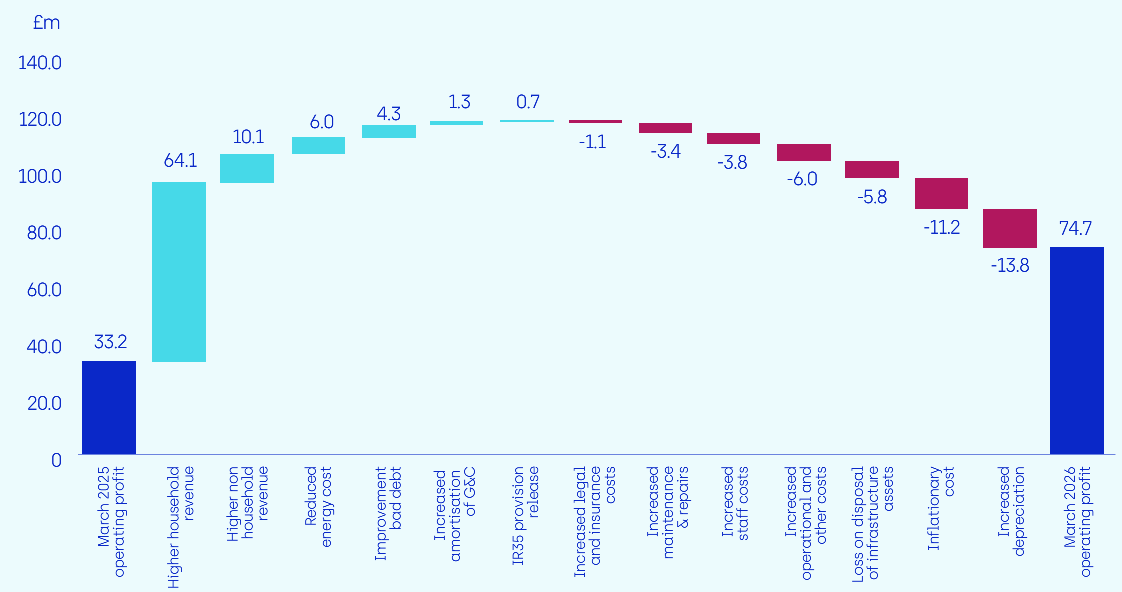
Operating costs overall increased by £34.1 million (9.7%) to £384.6 million (2025: £350.5 million).

Energy remains one of our largest operating costs, supporting the treatment and distribution of water to over 4 million customers. To mitigate price volatility, we adopt an advance purchasing strategy aligned with regulatory true-up mechanisms, providing greater cost certainty across the regulatory period.

Bad debt costs reduced during the year, reflecting improved collections and a refined estimation methodology, partially offset by a provision for potential macroeconomic pressures arising from instability in the Middle East. The company continues to enhance collections and customer engagement, including targeted support for vulnerable customers to reduce aged debt.

Staff costs increased following a 3.3% inflation-linked pay award and an increased headcount. Depreciation increased during the year, due to our growing capital investment programme expanding the regulated asset base. This is consistent with our sustained investment in network resilience, water quality and environmental improvements to support long-term service delivery.

Overall operating profit increased by £41.5 million (125.0%) to £74.7 million (2025: £33.2 million). as illustrated in the graph below.



Finance costs and profit before tax

Net finance expense for the year was £82.4 million, a £31.5 million increase (62.0%) (2025: £50.9 million), primarily due to higher inflation increasing non-cash accretion on index-linked debt and swaps. A fair value gain[1] of £6.1 million on energy swaps was recorded, driven by market price movements.

The loss before tax for 2025/26 was £1.7 million, an improvement of £14.5 million (89.6%) compared to the prior year's loss of £16.2 million.

Pensions

The retirement benefit asset increased by £5.1 million in the year (10.3%) to £54.8 million (2025: £49.7 million), reflecting a decrease in liabilities due to an increase in the net discount rate over the year and outperformance of the Plan's assets.

Cash flow, net debt and funding position

Net cash outflow before tax and financing[2] for the year was £1.0 million, a £31.6 million improvement compared to the prior year (2025: £32.6 million outflow). The outflow primarily reflects increased capital investment in line with delivery plans.

Net debt[3] at 31 March 2026 was £1,449.4 million (2025: £1,487.3 million), reflecting continued investment in the network. Index-linked debt increased in line with RPI and CPI; this non-cash accretion aligns with growth in nominal RCV and is included within net debt.

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 year.

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 the company's 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.

Financial review continued

Gearing at year end was 69.1% well within covenant limits, which are triggered above 90%. The £150.0 million equity injection delivered during the year supports the Board's commitment to maintain gearing at around 70% throughout AMP8, strengthening balance sheet resilience and preserving financial headroom.

As a long-term infrastructure business with significant capital commitments, we seek to align our funding with long-term sources of finance. We consider the debt capital markets to be the most cost-effective source of long-term funding. Financing subsidiaries had outstanding external bonds totalling £1,332.7 million at year-end, which have been raised in the capital markets and on-lent to the company on the same terms.

Strategic financial actions

Two major strategic actions have further strengthened the company's financial resilience.

Shareholders provided their committed £150 million equity injection, improving leverage metrics and supporting delivery of Affinity Water's £2.3 billion AMP8 investment programme.

This followed the successful £350.0 million refinancing completed in 2024/25, when the company entered the sterling bond market and issued a 6.25% fixed-rate, 15.5-year green bond. Issued in March 2025, the bond attracted strong investor demand and aligns with the company's Green Finance Framework, supporting sustainability-linked capital investment.

The strengthened capital structure continues to be reflected in external assessments. Fitch Ratings reaffirmed the company's Class A and Class B ratings in February 2025 with a Stable Outlook. This improved gearing position provides additional resilience against revised sector thresholds and enhances the company's capacity to manage the heightened regulatory and environmental risks associated with AMP8.

Dividends

The Board approved a revised dividend policy, aligned with updated licence requirements, with effect from 1 April 2025. The policy reflects the Board's commitment to balancing stakeholder interests while maintaining financial resilience.

The company forecast regulatory earnings[1] of £47.5 million in the year taking into account the efficiency of investment and operational performance. An appointed dividend of £26.0 million was paid, leaving £21.5 million available within retained earnings. Additionally, dividends from the company's non-regulated operations totalling £8.5 million were also paid in the year.

Capital investment and AMP8 delivery

Capital expenditure of £209.0 million was incurred in 2025/26 (2024/25: £205.9 million), focused on leakage management, mains renewals, water treatment and integrated water efficiency programmes. Expenditure reflects the phasing of multi-year investment programmes.

Future investment – AMP8 (2025–2030)

Following Ofwat's Final Determination in February 2025, the company plans to invest £2.3 billion over AMP8 to enhance the sustainability, resilience and affordability of services. Of this total, totex of £422.0 million was invested in 2025/26.

The AMP8 programme includes targeted investment in infrastructure, smart metering, leakage reduction and environmental protection measures, supporting long-term service resilience and the delivery of the company's 50-year WRMP 2025–2075).

Key customer impacts include:

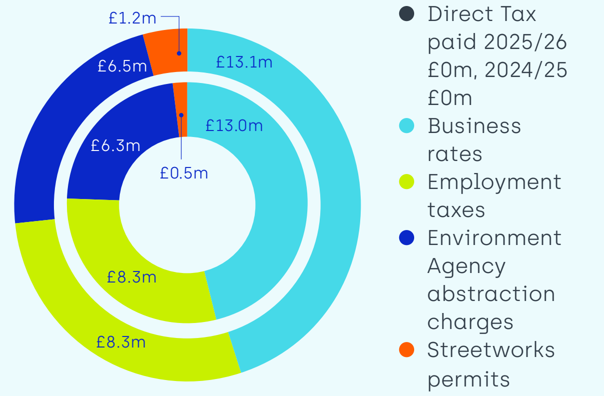
- smarter, more efficient operations to help manage costs;
- upgraded infrastructure to improve resilience and reduce service disruption;
- enhanced digital tools to support water efficiency; and
- strengthened environmental stewardship to protect water resources and ecosystems.

Credit ratings and commitment to financial resilience

Moody's, S&P and Fitch reaffirmed the company's strong credit ratings (A3/BBB+/BBB+), reflecting prudent financial management and a strengthened capital structure. Moody's A3 rating remains among the strongest in the sector.

Taxation

The income tax charge for 2025/26 was £4.5 million (2025: £0.6 million charge). The effective current tax rate of 256% (2025: (4%) was higher than (2025: higher than) the UK corporation tax rate of 25% (2025: 25%). 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.



2025/26 (outer) £29.1m

2024/25 (inner) £28.1m

Adam Stephens

Chief Financial Officer

30 June 2026

[1] Regulatory earnings represent performance on a regulatory basis, reflecting allowed revenues and costs under the price control framework, including the impact of indexation and timing differences between expenditure and recovery.

Section 172(1) statement

Introduction

In this statement, we explain how the company and the Board have considered the environment and key business relationships, and engaged with employees, customers and other stakeholders (such as regulators, communities, environmental groups, suppliers and political representatives).

This statement also explains how the Board had regard to the company's purpose, the matters set out in section 172(1) of the Companies Act 2006 and the interests of stakeholders when reaching key decisions.

We focused on four areas – the environment, supply and demand, water efficiency and vulnerability – to inform our current and future strategy.

The table on the next page describes the company's and the Board's engagement with each key stakeholder group. This information enables the Board to consider relevant factors when deciding the course of action that best supports the company's long-term success. This may sometimes adversely affect particular stakeholders as we act ethically and responsibly toward all stakeholder groups.

Affinity Water's stakeholders

The Board considers, both individually and collectively, that it has acted in good faith in the way 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.

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

The Chair ensures Board discussions lead to decisions that reflect section 172 factors. Board minutes record decisions and actions in the context of these factors.

The Board's role in stakeholder engagement is to:

- ensure that our purpose, strategy and culture reflect views actively sought from relevant stakeholders;
- set the expectation that all key decisions consider the views of relevant stakeholders;
- require Executive Directors and other senior managers to engage with relevant stakeholders so their views are understood and considered when making key decisions;
- encourage Executive Directors and other senior managers to develop stakeholder engagement that meets statutory and regulatory requirements while also reflecting the principles on which they are based; and
- undertake direct stakeholder engagement that complements day-to-day engagement by management.

Section 172(1) statement continued

The company's 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 methods of 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

In 2025/26, each Board committee reviewed its Terms of Reference to ensure they appropriately addressed section 172 factors and Ofwat's 2019 Board leadership, transparency and governance ('BLTG') principles. At the start of every Board meeting, directors are reminded of the section 172 requirements. The Board reviews and approves the Matters Reserved to the Board annually.

The Board conducts an annual review of its stakeholder engagement and adopts a risk-based approach. Using the baseline perception assessment and policy priorities, the company developed a strategic stakeholder engagement plan based on stakeholder mapping and the identification of priority groups, helping to focus activity and maximise effective engagement.

Key events in the year

Equity injection and strengthening of the capital structure

- In January 2026, the company issued an Equity Call Notice under the legally binding Equity Commitment Letter, triggering a £150.0 million shareholder equity injection. The funds were received in February 2026.
- The Board considered the long-term financial resilience of the company and the importance of maintaining strong liquidity and sustainable gearing levels, as the company progresses through AMP8.
- This funding supports our ability to finance a substantially increased investment programme and maintain services to customers while protecting long-term financial stability.

Revaluation of plant, property and equipment

- Following a review of our accounting policies, the Board approved a change to allow certain classes of fixed assets to be measured at fair value. The initial independent external valuation was performed in September 2025, with a further valuation undertaken in March 2026.
- The Board oversaw the independent valuation process undertaken by Ernst & Young, which determined a revaluation of £214.0 million using a multiple-to-RCV methodology, supported by a discounted cash flow model.
- The Board considered the transparency and accuracy of financial reporting, relevance of fair value information for stakeholders and importance of strengthening the balance sheet in support of future investment and financing needs.

Capital reductions to simplify and strengthen the balance sheet

- Following the receipt of new equity, the Board approved a programme of capital reductions at Affinity Water Limited to simplify the share capital structure.
- These actions included reductions to existing and newly issued share capital, cancellation of share premium, and other steps to rationalise equity accounts.
- The Board ensured the steps complied with company law.

Dividend policy and proposed 2025/26 dividend

- The Board reviewed the company's dividend policy and assessed the appropriateness of a dividend for 2025/26. In doing so, it assessed the matter in the round, taking account of regulatory guidance and Ofwat licence condition (Condition P) on dividends introduced in 2023.

Section 172(1) statement continued

Key considerations included:

- reduced gearing and strong credit ratings;
- continued improvements in operational performance
- continued long-term viability and liquidity; and
- compliance with all licence conditions.

The Board also took into account the significant new shareholder investment of £150.0 million in February 2026, supporting our ability to deliver an expanded AMP8 programme.

The dividend assessment ensures any distribution reflects the company's performance for customers and the environment, supports long-term financial resilience and rewards efficiency while protecting the company's ability to finance its functions.

Key decisions made in 2025/26

We set out below the key decisions made in 2025/26 and the Board's consideration of section 172 factors in reaching them. Refer to page 61 for further information on matters considered by the Board in 2025/26.

Water Resources Management Plan and regional plans

The Board continued to oversee delivery of our Water Resources Management Plan 2024 ('WRMP24'), which sets out our long-term strategy to secure a resilient and sustainable water supply for the communities we serve between 2025 and 2075. Our WRMP24 forms part of a co-ordinated regional approach developed through Water Resources South East ('WRSE') and Water Resources East ('WRE'), aligning regional planning with national strategy and strengthening resilience across the South East.

Regional planning includes the White Horse Reservoir, a proposed reservoir to enhance long-term water security and drought resilience. During the year, the Board monitored the strategic, financial and regulatory implications of progressing regional resource options.

In overseeing WRMP24 implementation, the Board considered:

- drought preparedness and resilience objectives;
- environmental sustainability and abstraction management;
- customer affordability and long-term bill impacts; and
- engagement with regulators, Government and regional partners.

WRMP24 remains central to our long-term resilience strategy, and the Board will continue to monitor delivery and stakeholder engagement as plans progress.

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

The Board approved the 2025/26 annual budget and updated ten-year base-case cash flow forecast after reviewing our strategic progress and the risks emerging during the first year of AMP8. This approval ensures we remain financially resilient and well-positioned for the remainder of the AMP.

As part of the process, the Board revisited company viability, key planning assumptions and stress-testing outcomes, with particular focus on continued volatility in energy prices and sustained pressures from rising living costs.

Our budgeting approach continued to blend bottom-up and top-down methods. The bottom-up process engaged cost centre managers across the business to validate operational needs and delivery plans. The top-down review incorporated shareholder expectations and reflected Ofwat's Final Determination, ensuring alignment with both regulatory requirements and shareholder objectives.

Workforce pay settlement and employee welfare

The Board reviewed workforce pay negotiations during the year, alongside wider employee engagement, safety and wellbeing metrics.

In approving the annual pay settlement, the Board considered:

- the ongoing cost-of-living environment;
- the need to attract and retain skilled colleagues in a competitive labour market;
- safety performance, including fatigue management and contractor protections; and
- employee engagement and culture improvement initiatives.

The Board also maintained oversight of:

- zero harm objectives (including lost time injuries and high-potential incident monitoring);
- cyber training and operational resilience training; and
- engagement through site visits and workforce feedback mechanisms.

The Board concluded that investment in colleagues supports long-term productivity, operational resilience and sustainable value creation for shareholders.

PR24 Final Determination and regulatory reform

During the year, the Board formally considered and accepted the regulator's Final Determination for the upcoming regulatory period.

In making this decision, the Board evaluated several key areas, including:

- the deliverability of performance commitments and associated expenditure allowances;
- financeability and long-term financial resilience, including impacts on key credit metrics;
- customer outcomes, with a focus on service quality and affordability; and
- developments in the wider regulatory reform landscape and emerging policy changes.

Section 172[1] statement continued

The Board also reviewed and approved the required assurance statement relating to the Determination.

Acceptance of the Final Determination reflects the Board's overall judgement that the plan achieves an appropriate balance between customer interests, environmental and service improvements, financial sustainability and long-term stakeholder value.

Customer and digital transformation

The Board approved continued investment in key customer and digital transformation programmes, including smart metering and demand management, enhancements to customer interaction platforms, C-MeX improvement initiatives, and improvements to leakage recovery and pressure management.

In line with its section 172 duties, the Board considered the impact of these investments on customer satisfaction and support for vulnerable customers, the transparency and fairness of customer communications, and the long-term efficiency and resilience delivered through digital and operational improvements.

Looking ahead to 2026/27

The decisions taken during 2025/26 reflect the Board's continued focus on:

- long-term water resource resilience and environmental stewardship;
- cost discipline and financial sustainability entering AMP8;
- customer trust and service performance;
- employee safety, engagement and capability; and
- strong governance and regulatory alignment.

The Board remains committed to transparent stakeholder engagement and delivering sustainable outcomes for customers, communities, the environment and shareholders.

Our engagement with stakeholders

Below, we describe the company's and the Board's role in engaging each key stakeholder group.

Customers

Who

Household and non-household customers; developers; retailers; self-lay infrastructure companies; NAVs

Why engagement matters

Customers rely on water as an essential service every day. Engagement helps us deliver reliable service, provide value for money and support environmental goals.

Company engagement methods

Daily contact; customer research; public meetings; website; media and social media; ICG; fair bills; social tariffs and Priority Services Register; digital self-service platforms.

Board engagement/oversight

The Board receives monthly updates on AMP8 performance, weather impacts, drought management, the Save Our Streams campaign and the ICG refresh, and oversees complaints, partnerships and customer protection (including GDPR and PR24 customer commitments).

Key achievements/progress 2025/26

- Improved transparency and customer support mechanisms
- Proactive drought management
- Refreshed ICG engagement

Communities

Who

Local communities; NGOs; environmental organisations; campaigners

Why engagement matters

Engagement brings diverse perspectives, builds trust, strengthens our reputation and creates partnerships to support sustainable water management and conservation.

Company engagement methods

Joint forums; public meetings; consultation meetings; catchment partnerships; water resource updates; volunteering days; STEM and education programmes.

Board engagement/oversight

The Board monitors the WRMP, water levels, drought management and community projects, and approves the Community Engagement Strategy.

Key achievements/progress 2025/26

- Affinity Days volunteering initiatives
- Environmental partnerships (Herts and Middlesex Wildlife Trust, Chilterns Chalk Stream Project, Groundwork South)
- Water Smart Education Programme expansion

Our engagement with stakeholders continued

Employees

Who

Workforce including employees and the wider workforce

Why engagement matters

Workforce skills, talent, and values are critical. Engagement promotes inclusion, improves retention, develops capability and aligns the workforce with our strategy.

Company engagement methods

Leadership forums; pulse surveys; one-to-one meetings; CEO communications; onboarding and training; Diversity; Inclusion and Dignity at Work Steering Group; internal communications; live events; customer delivery roadshows; mandatory e-learning.

Board engagement/oversight

The Board receives updates on culture, training, wellbeing, health and safety, and whistleblowing incidents. The Director of Employee Engagement represents the workforce at Board level, and the Board oversees safety campaigns and CEO engagement with staff.

Key achievements/progress 2025/26

- Reduction in Gender Pay Gap
- Collaboration with Women's Utilities Network
- Development of EDI strategy and Code of Ethics

Shareholders

Who

Owners of shares in the company

Why engagement matters

Shareholders influence governance and seek reasonable long-term returns.

Company engagement methods

Board/committee meetings; monthly financial and operational updates; calls; annual report; sustainability activities.

Board engagement/oversight

The Board ensures the company aligns with Ofwat's governance principles and reviews budgets, viability statements, stress testing and Board composition.

Key achievements/progress 2025/26

- Ongoing shareholder engagement to support long-term returns and governance transparency

Our engagement with stakeholders continued

Regulators and Government

Who
Ofwat; MOSL; EA; DWI; Defra; HSE; Natural England; CCW; central and local Government; MPs; highways authorities

Why engagement matters
Engagement ensures we comply with regulation, maintain our licence to operate and deliver our purpose responsibly.

Company engagement methods
Industry working groups; consultations; strategic planning; regular meetings; investment and land disposals.

Board engagement/oversight
The Board receives monthly updates on regulatory developments, correspondence, the AMP8 transition and PR24 commitments, undertakes site visits with Ofwat, and oversees regulatory submissions, innovation projects, energy costs and financial resilience.

Key achievements/progress 2025/26
- Strong regulatory relationships maintained
- Active engagement throughout AMP8 delivery

Environmental bodies and climate change

Who
Environmental organisations; local community groups

Why engagement matters
Engagement protects water sources and river flows, ensures high-quality supply and minimises environmental impact.

Company engagement methods
WRMP; catchment management; river restoration; environmental policy; community environmental initiatives.

Board engagement/oversight
The ESG Committee provides oversight in this area. Board members with environmental expertise contribute to discussions, and the Board embeds environmental and climate risk within its principal risk framework. It monitors key metrics monthly and oversees the Net Zero programme and solar build projects.

Key achievements/progress 2025/26
- Progress on Net Zero programme
- Regional water planning
- Solar build projects

Our engagement with stakeholders continued

Supply chain

Who

Contractors; maintenance and repair suppliers; traffic management suppliers

Why engagement matters

Our supply chain is essential for delivering operations, projects, innovation and resilience.

Company engagement methods

Contractor integration; shared reporting; quarterly forums; supplier performance meetings; collaborative learning

Board engagement/oversight

Procurement and Legal review standard purchase and service agreements, and the Contracts Committee approves material contracts. The Board monitors compliance, health and safety and supply chain risk, and reviews payment practices biannually.

Key achievements/progress 2025/26

- Strengthened supplier relationships
- Enhanced collaboration and risk mitigation with alignment to AMP8 delivery and PR24 requirements

Providers of finance and credit rating agencies

Who

Banks, lenders and credit rating agencies

Why engagement matters

Engagement supports access to funding, financial resilience and delivery of the AMP8 investment programme.

Company engagement methods

Regular meetings and calls with lenders and credit rating agencies; financial reporting and investor communications.

Board engagement/oversight

The Board receives quarterly treasury reports covering covenants, liquidity and gearing. The CFO engages directly with lenders and rating agencies, and the Board reviews and approves financing arrangements and facilities.

Key achievements/progress 2025/26

- £150 million equity injection strengthening financial resilience
- Extension of revolving credit facilities approved
- Continued engagement supporting delivery of AMP8

Conclusion

The Directors are satisfied that, during the financial year ended 31 March 2026, they acted in good faith to promote the Company's long-term success for the benefit of its members, taking account of the matters set out in Section 172(1).

Principal risks & uncertainties

Our goal for corporate risk management

Affinity Water strives to manage risk holistically across the business, using a transparent and timely process which 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 (e.g. Net Zero). We mobilise technology and expertise from sources inside and outside the business to support management in making balanced risk-based decisions.

Risk governance

Our documented and established risk management governance model, based on the Three Lines of Defence[1], involves the operational business, the dedicated Risk function and other internal and external Assurance/ Audit functions in the management of risks in the pursuit of delivering the objectives of the organisation. ARAC reviews senior management's work on risk management at least six monthly, and reports to the Board on the effectiveness of the system of risk management and controls. At senior management level, the ELT regularly reviews high priority risks and horizon scanning exercises. The Risk function owns and manages the corporate risk database, provides internal consultancy to the operational business and decision support services 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 the effectiveness of the management and controls framework annually. See pages (101-108) for further information on the responsibilities of the Board and the ARAC on risk management and internal control. Our cyclical risk management process identifies and assesses risk, implements appropriate mitigation measures, checks the implementation of the control framework and assigns remedial actions where necessary.

Horizon scanning for 'emerging' risks

AWL defines emerging risks as potential future events or circumstances that could significantly and negatively impact achievement of our strategic objectives, the likelihood and impact of which cannot yet reasonably be 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 A (below) Emerging risks 2025:

Emerging risks	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
Disruption to the organisation could occur as a result of proposed reform of the UK water sector regulatory framework, as per the Government's white paper published in January 2026.	2026

Provision 29

From financial year 2026/27 we will comply with Corporate Governance Code 2024, Provision 29, which requires our Board to make an annual declaration on the effectiveness of our material internal controls. As well as financial controls, the scope of this requirement also includes operational, reporting and compliance controls.

We are well progressed with collating our material controls, most of which relate to the principal risks and uncertainties detailed on the following pages.

We have developed a framework designed to ensure that these controls are subject to appropriate testing.

We are in a good position to be able to make the required declaration in our Annual Report for 2026/27.

[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.

Principal risks & uncertainties

Our principal risks

These risks have been identified as having the potential to adversely affect our business assets and objectives. They are managed as described in the tables below 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.

Description	Impact On
Failing to manage dangerous working practices may result in personal injury/fatality or occupational ill-health to AWL employees/contractors, the public, including our customers.	• Satisfied workforce • Reputable company • Compliant organisation

Risk 1 : Health, Safety and Wellbeing

Post Control Rating	Trend
High	↔

Control Measures	Update
• Our H&S management system is externally verified and certified to ISO 45001. • Our safety system includes mandated appropriate technical and certificated health & safety training. • Regular H&S communications including safety briefings, toolbox talks, safety stand-down days; safety leadership evaluations and safety conversations across the organisation. • Contractors and suppliers are required to have externally recognised H&S accreditation, and adhere to our H&S common standards, with regular audits and performance reviews undertaken. • Our governance framework ensures H&S performance is tracked and monitored at operational management, Executive Leadership Team and Board levels. • Our H&S audit and inspection regime includes Root Cause Analysis, captured on our EcoOnline system, and incident review protocols to ensure key learnings are captured and any necessary strengthening of controls is actioned appropriately.	• We have implemented a new approach for safe working on live water mains; rolled out a new mobile app to help keep our lone workers safe; and set up a Fire Improvement Group, focusing on how we manage fire safety across the business. • We continue to progress with our plans around Process Safety, completing a full analysis on a key process at one site, where we will now work on implementing the identified additional controls. • Deep dive reviews on our top risks covered human stress, pressurised systems, LV and HV electrical systems, putting people to work, Legionella and chemical management • We completed an audit of how we put people to work and commenced a schedule of audits on our supply chain looking at how they manage health and safety. • We reviewed our health, safety and wellbeing maturity matrix to understand our level of progression.

Key

↔ Residual/net risk materially unchanged during the year (taking account of control activities)

↓ Residual/net risk decreased during the year (taking account of control activities)

↑ Residual/net risk materially increased during the year (taking account of control activities)

NEW New risk (Risks newly aggregated / disaggregated)

Principal risks & uncertainties continued

Risk 2 : Failure to Supply

Description	Impact On
We may become unable to meet our obligations to provide a sufficient supply of drinking water to meet customer demand during periods of peak supply.	• Satisfactory supply • Satisfied customers • Reputable company • Compliant organisation

Post Control Rating	Trend
Moderate	↔

Control Measures	Update

• Water supply planning:
  ◦ Short-term: daily and weekly plans to ensure sufficient storage and production capacity to meet demand
  ◦ Long term: our long-term plans extend as far as 50 years to plan the investment required to meet growth and demand patterns
• Extensive programmes of work to manage demand and limit volumes lost through leakage in the network
• Demand management strategies, including ongoing roll-out of water meters to customers and campaigns to educate customers on using water efficiently
• Robust emergency plans in place to ensure that we can quickly mobilise repairs of damage to our network and mitigate disruption when incidents occur
• Emergency plans are regularly tested to ensure that they remain robust and fit for purpose
	• This year we installed more than 103,000 smart meters, procured a Meter Data Management System and built a new customer app. All of that will enhance our ability to identify leaks and provide our customers with regular insight into how they use water and how they can reduce consumption.
	• During AMP8 we are targeting significant demand reduction through, among other things:
	  ◦ accelerating customer communications to enable more effective behavioural change; and
	  ◦ carrying out approximately 80,000 home water efficiency checks, based on current savings of 32 litres per visit.

Risk 3 : Failure to Supply high quality water

Description	Impact On
We may fail to supply wholesome high quality water to our customers in line with our legal requirements.	• Satisfied customers • Reputable company • Compliant organisation

Post Control Rating	Trend
Moderate	↔

Control Measures	Update
• We design, build and operate our drinking water treatment works so that they can adequately treat the range of raw water quality that occurs in our source waters. • Our planning processes look for changes in raw water quality or drinking water standards to plan upgrades to our treatment processes. • We regularly inspect all our treated water storage reservoirs. • We maintain our distribution networks by replacing older mains and flushing mains in areas where deposits can accumulate. • We have a comprehensive sampling programme in place from source to tap, with the sampling and analysis carried out by UKAS accredited teams. • Drinking water safety plans are in place for all our supply systems, from abstraction points all the way through to the customers' taps.	• For the calendar year 2025, the number of breaches of the relevant drinking water quality standard fell by 10% to 36, continuing our strong underlying performance with respect to water quality. • Our performance for the Event Risk Index ('ERI') was 26 against a full year target of 50, which evidences our high operational performance and indicates that drinking water quality is not adversely impacted by our day-to-day activities. • In December 2025, our regular water sampling detected a single coliform bacteria in a treated water sample taken from our Iver site. Subsequent investigations identified possible routes of ingress in the roofs of the treated water tanks. The tanks have been taken out of service, repaired and cleaned before being returned to service. CRI score would still put us in the upper half of industry performance, continuing our strong underlying performance for this metric.

Principal risks & uncertainties continued

Risk 4: Data Compromise

Description	Impact On
The availability, confidentiality or integrity of information or data could become compromised, due to malicious attempts to access our data, information and systems by third parties.	• Financial stability • Reputable company • Compliant organisation

Post Control Rating	Trend
Critical	↔

Control Measures	Update

• External threats to all businesses continue to escalate, as evidenced by recent, very public, cyber attacks on well-known high street brands. However, we continue to adopt innovative approaches in order to continuously enhance our defences against such attacks.
• We maintain a strong cybersecurity posture through continual assurance activities, extensive exercising of our protection capabilities and approaching traditional cyber security problems in new, innovative ways.
• We have incorporated a series of recurring validation activities to ensure that our information remains accurate and current, while enabling us to remain flexible in our approach and adapt to the changing threat landscape in an efficient and effective manner.
• We conduct regular internal phishing tests to ensure the continued awareness by all employees of the nature of phishing attacks and assess our overall cybersecurity readiness.
	• We have increased Board engagement and oversight of the Cyber Security domain in line with UK Government guidance.
	• We have implemented a 24/7 cyber defence monitoring and response capability to detect and respond to security events more quickly
	• Further investments are planned as part of the AMP8 Cyber Enhancement Programme including:
	  ◦ Improvements to modernise the way that trust, identity, and access are managed
	  ◦ Innovative new approaches to workforce security awareness
	  ◦ Orchestrating our ability to respond to the ever evolving cyber threat landscape.
	• We continue to strengthen our incident response preparedness through a programme of exercising, scenario testing, and development of response plans.

Risk 5: Environmental Damage

Description	Impact On
There is a risk that, while operating our business, an incident occurs which inadvertently causes damage to the environment, and also bring about financial and reputational impacts.	• Sustainable environment • Compliant organisation • Reputable company • Satisfied workforce

Post Control Rating	Trend
Low	↔

Control Measures	Update

• As a clean water only company our inherent business risk is lower than our peers who treat waste water, however we are committed to the protection of the environment, prevention of pollution and compliance with environmental legislation, regulations and requirements, as set out in the WISER.
• We are reviewing our Net Zero Strategy and reporting annually on our greenhouse GHG, identifying opportunities to reduce our carbon footprint.
	• Our AMP8 plans are aligned to meeting the WISER, including:
	  ◦ Investing £2 million in resilience and environment community pilot schemes, one for each of our communities, working in partnership with local business and environmental groups
	  ◦ Evaluating the environmental benefits of taking a whole catchment approach to sustainable water management
	• We have set ourselves a range of objectives to protect and enhance the environment which includes ISO 9001 (Quality), ISO 14001 (Environment) and ISO14064-1 GHG certification, as well as delivering against our WINEP.
	• We have developed a methodology for assessing our ability to provide customers water during flooding events to prioritise flood alleviation schemes across the AMP.

Principal risks & uncertainties continued

Risk 6: Adverse Climate Impact

Description	Impact On
Climate change and other environmental factors could negatively impact our business operations through damage to our landholdings, assets and ability to supply wholesome water.	• Satisfactory supply • Satisfactory quality • Satisfied customers • Reputable company

Post Control Rating	Trend
High	↔

Control Measures	Update
• Working in collaboration with other companies within the industry, we have secured an allowance for, and are in the design process of, key strategic resource options to reduce the impact of an increase in competition for raw water imports. • We are developing procedures for conducting site climate risk assessments, with a focus on delivering schemes for flooding and power resilience to mitigate the impacts of extreme weather events. • We are working with landowners and farmers to improve soil health and raw water quality through our Catchment Management programme and are regularly sampling and monitoring for changes in quality of our abstractions.	• In December 2024 we published our Climate Adaptation Report, developed in line with the latest Defra reporting requirements, which sets out how we are managing and adapting to our climate change risks. • We have also published our WRMP24, which sets out measures to mitigate the reduced availability of ground and surface water.

Risk 7: Fail to Meet Customer Expectations

Description	Impact On
We may fail to meet our customers' evolving expectations to deliver consistent, high-quality experiences across all our customer interactions.	• Financial stability • Compliant organisation

Post Control Rating	Trend
High	↑

Control Measures	Update

• We have implemented a Customer Experience Strategy that aligns with regulatory expectations to ensure we consistently meet and exceed customer needs. This includes a Service for All strategy which outlines our customer vulnerability ambitions.
• We regularly track customer insights and satisfaction to inform actionable improvements and ensure we are responsive to customer feedback.
• We provide enhanced training and resourcing for customer-facing teams, especially during high-risk periods, to ensure they are well-equipped to handle customer inquiries and issues.
• We maintain ongoing engagement with CCW and Ofwat to anticipate and respond to emerging expectations, ensuring we're aligned to regulatory requirements and customer needs.
	• We launched a new website in December 2025. We are currently launching a new version of MyAccount alongside a mobile app to provide customers with easy access to our services and enhance their overall experience. During Phase 2, we will be embarking on replacing our billing system to be able to manage our customer journeys more consistently.
	• We have refreshed our high priority journeys based on customer insight and altered processes as a result which is reaping promising results.
	• We have forecasted and resourced to meet demand based on improved forecasting; implemented stretch targets on our service levels and the quality standard for each customer channel; and are tracking performance against these, implementing action plans when these levels are not met.
	• We have implemented improvement plans for 5 key areas for 2026/27:
	  ◦ Communication & process engineering
	  ◦ Proactive issue avoidance
	  ◦ Inclusive approach
	  ◦ Proactive communication
	  ◦ Speed of response and improved resolution of complaints

Principal risks & uncertainties continued

Risk 8: Fail to meet regulatory and legal obligations

Description	Impact On
We may fail to comply with obligations under our instrument of appointment, or regulations and laws relevant to our business activities.	• Financially stable • Compliant organisation • Reputable company

Post Control Rating	Trend
High	↔

Control Measures	Update
• We have a dedicated in-house Regulatory and Legal team with broad and detailed industry knowledge, which follow and review all new industry-relevant legislation and regulation both internally and through trade bodies, as well as an active horizon scanning programme • We continue to maintain strong relationships with our stakeholders (including policy makers and regulators) and their representatives to ensure we fully understand our obligations and legal and regulatory requirements and respond proactively to any issues or concerns. • We continue to contribute fully to all engagement and consultation with our regulators and seek to ensure our voice is heard on emerging changes.	• Following the publication of the Cunliffe Review, the government has confirmed its intention to further reform governance and regulation of the sector through primary legislation to be introduced in 2026. The government has published a transition plan setting out how it will move towards the new regulatory arrangements over the next five years. • The Regulatory and Legal teams are engaging with government throughout the process and feeding in detailed responses to all the consultations which emerge. All proposals are being carefully considered to ensure that the company understands the potential impact of all changes and is prepared for them. • There is a risk of disruption to regulatory and business planning processes as a result of the industry reform and transition period. Delayed delivery of new legislation and regulatory guidance could cause further disruption and uncertainty. Further risks could emerge throughout the process of industry reform, requiring additional resources to manage and respond to them.

Risk 9: Funding Challenges

Description	Impact On
We could fail to maintain or have access to sufficient financial resources to continue our business activities	• Financial stability • Compliant organisation

Post Control Rating	Trend
Moderate	↔

Control Measures	Update
• We maintain undrawn revolving loan facilities, cash balances and standby loan facilities to meet our treasury policy of at least 15 months of forecast cashflows. • Longer-term financing needs are sourced from the private and public bond markets. • 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 ability to access debt capital markets remains strong and we maintain access to diverse funding sources. • Our next major maturity is scheduled for July 2026, which will be settled out of existing funds. • We have maintained strong investment-grade credit ratings with credit-rating agencies and these were affirmed during the year. • Our strong credit ratings are based on our Final Determination, our strong operational performance and equity support from shareholders.

Principal risks & uncertainties continued

Risk 10: Adverse Macro-economics

Description	Impact On
Macro-economic factors (interest rate, inflation, energy prices, cost of living crisis and tax risks) could have a material adverse effect on our financial performance	• Financial stability • Satisfied customers • Satisfied workforce

Post Control Rating	Trend
High	↔

Control Measures	Update
• 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. • We use inflation-linked debt to ensure a proportion of our interest costs are linked to inflation, thus offsetting an element of the movement in revenue and RCV that results from changes in inflation. • We forward purchase energy with the intention of matching our increased energy prices to the regulatory true-up mechanism.	• As part of our regulatory settlement we now benefit from an energy indexation mechanism which will lead to an end of AMP 'true up' of our energy cost against a market index, thus reducing the risk we face due to energy price fluctuations.

Risk 11: Capital Projects Underdelivery

Description	Impact On
We may fail to deliver our planned capital investment programme.	• Financial stability • Reputable company • Compliant organisation • Satisfied customers

Post Control Rating	Trend
Moderate	↔

Control Measures	Update
• Our 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. • 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. • Development of staff through bespoke contract training and project management training ensure that governance and processes are followed to deliver project outcomes.	• Major enhancements have been made in Investment Portfolio Management processes and platforms to meet more complex reporting requirements for AMP8 and to monitor the effectiveness of delivery plans • A new supply chain has been selected through a collaborative framework suite of contracts to ensure early engagement in delivery risks; and to control programme delivery and prices to ensure deliverability and financial viability of programme outcomes

Principal risks & uncertainties continued

Description	Impact On
We mail fail to maintain the health of our assets such that water supply or quality is compromised, in addition to employee safety.	• Satisfactory supply • Satisfactory quality • Satisfied customers • Reputable company • Satisfied workforce

Risk 12: Asset Heath

Post Control Rating	Trend
Moderate	↔

Control Measures	Update
• The maintenance of our existing assets is funded from the base capital maintenance element of our regulatory settlement where we have notably increased spend to our distribution mains and water treatment assets to combat asset health degradation. • We have autonomy to decide how to allocate funds to meet our performance commitments and asset health risks. We use a 'risk and criticality' based approach to inform our decision making, enabling us to prioritise investment to those areas that are at greatest risk to service disruption and environmental harm. This approach takes data from inspections, asset models and performance to ensure we are as informed as possible. • We are actively participating in Ofwat's resilience working group to better understand the risk of our assets across the industry and their innovation funding initiatives, aiming to leverage these funds for various projects, including those focused on network optimisation. • We operate within a regulatory settlement that provides funding for c.97% of our base costs, supporting continued investment in asset maintenance and resilience.	• We have added new tools to the asset investment process, to ensure we are prioritising the optimal solutions. These tools Asset Class Management Frameworks – strategic guidance documents, for each of the key asset cohorts, that set out performance and health criteria to develop investment options. • We have developed our maintenance excellence programme which improves our capabilities and data to take a more risk-based approach to maintenance expenditure. • We are working on enhancing the accuracy and completeness of our data and updating our asset health metrics to better take into account the information available to us and continually improve our understanding of our assets. • We have updated our treatment and network strategies to maintain a forward looking view which helps us prioritise investment both now and in the long term.

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 the long term. The directors considered the company's long-term prospects in the context of our PR24 plans and the outcomes and investment requirements we must deliver in AMP8. The directors also reviewed the company's long-term water resource needs through our final WRMP24, which sets out how we will secure resilient and sustainable water supplies for customers from 2025 to 2075. During the year the Board also approved the draft Drought Management Plan 2027, which further informs our long-term resilience strategy. The financial projections presented to the Board, to enable assessment of long-term prospects, reflect the expected level of investment implied by these plans and the 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 2036** (the 'lookout period'). The forecasts used in this assessment therefore extend beyond the current price control period and incorporate our PR24 plans together with projected financials for the later years of the lookout period. These forecasts also reflect the Board's updated decisions on investment sequencing, digital transformation phasing, treasury actions and long-term resilience programmes. As in previous years, the level of reliability of assumptions reduces in the latter part of the period. However, the directors continue to consider the ten year period appropriate, given the long-term nature of the business and the planning horizons associated with WRMP24, drought resilience and AMP8 delivery.

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 reflects the current capital structure of the company which includes the recent equity injection of £150 million. This has reduced gearing, increased financial resilience and supports our strong credit ratings. The base case also reflects projected costs and revenues based on the directors' current view of future performance of the company taking into account our PR24 plans, the investment profile for AMP8, and the updated operating and financing assumptions reviewed by the Board during the year and has projected financials for the remaining five years of the lookout period based on the projections for AMP8 and AMP9 and current economic climate. The AMP8 forecasts reflect the investment sequencing, resilience planning and financial assumptions considered by the Board during FY26, including digital transformation phasing, water quality performance, drought resilience work and the updated approach to major programmes such as White Horse Reservoir. AMP8 expenditure also includes expenditure to further develop strategic regional water resource solutions, as detailed in our 2024 WRMP Drought Management Plan 2027.

The projections for the ten-year lookout period apply the AMP8 mechanism for sharing financial outperformance with customers. They also include the impact of any potential net ODI/PCD penalties resulting from AMP7 performance in AMP8 together with updated performance expectations for C-MeX, D-MeX and BR-MeX.

Within the lookout period there is a total financing requirement of £1.7 billion to re-finance £923 million of existing bonds and forecasted swap accretion as well as raising £765 million of new debt to fund future investment.

On 3 March 2025, Affinity Water Finance (2004) PLC initiated a tender offer to repurchase part of the £250 million fixed rate bond that is maturing in July 2026. The tender offer was successfully settled on 13 March 2025, with notes accepted for repurchase cancelled, reducing the company's outstanding debt obligations (refer to page 135 for details of our bond maturities). There have been no buybacks or refinancing activities in the current year.

Assumptions relating to new debt to fund incremental investment remain consistent with the prior year. The base case to assume interest rates of 6.4% for Class A fixed-rate debt to match with the most recent £350 million class A issuance, 4.0% for Class A index linked and 7.6% for Class B debt.

Stress test scenarios and linked to the principal risks

The directors have developed a number of downside scenarios in order to test long-term viability. These scenarios are based on the principal risks noted in the previous section, some explore different combinations of risks or timing assumptions and are more or less stretching depending on the specific scenario. 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 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 default levels set out in the company's WBS documentation. The WBS also contains trigger levels, if reached, these would require increased reporting to the WBS lenders and

Viability statement continued

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 led 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.

To assess the resilience of the company under a range of severe but plausible circumstances, the directors applied a suite of stress tests to the base-case cash flow forecast. These sensitivities, approved by the Audit, Risk and Assurance Committee, reflect both standalone and combined downside events aligned to the company's principal risks.

The table below summarises each scenario, the stress applied, the pre-mitigation financial impact, the associated principal risks, and the potential mitigation levers available to management. We have listed potential mitigation levers for each scenario, even if no mitigation need was identified during the stress tests. Further details on stress test performance pre and post mitigation is shown in the results of the stress test on page 80.

Scenario	Stress Test Applied	Pre-Mitigation Financial Impact	Principal Risk Linkage	Available Mitigation
S1 – Totex Overspend	15% increase in totex (Wholesale Appointed expenditure – excludes non appointed and Retail)	Reduction in adjusted Interest Cover Ratio ('AICR'); reduction in FFO/Net debt; fall in cash balances	PR1; PR3; PR4; PR6; PR8; PR11	Operational cost control; working capital management; capital reprofiling; dividend restriction
S2 – Inflation Volatility	2% decrease in all three inflation metrics (RPI, CPI and CPIH)	Lower RCV growth and revenue; increased Net Debt/ RCV; pressure on interest cover	PR10; PR9	Inflation hedging (RPI/CPI swaps); working capital management; capital reprofiling; dividend restriction
S3 – Exceptional Operational Event	One-off exceptional event	Increased borrowing; reduction in liquidity headroom; temporary gearing pressure	PR1; PR3; PR5; PR11	Cash reserves; working capital management; capital reprofiling; dividend restriction
S4 – Regulatory Penalty	A penalty, fine or one-off cost of £10 million	Reduction in net cash flow; minor liquidity pressure	PR1; PR3; PR8	Cash reserves; working capital management; capital reprofiling; dividend restriction
S5 – Debt Cost Increase	3% increase in cost of debt	AICR deterioration; reduced interest cover headroom	PR9; PR10	Hedging; cash reserves; working capital management; dividend restriction
S6 – Maximum ODI Underperformance	ODI/PCD penalty of £5 million per annum scenario	Revenue reduction; P&L impact	PR5; PR8; PR7; PR11	Performance improvement actions; cost control; working capital management; dividend restriction
S7 – Combined Totex & Inflation	Combination of S1 (15% increase in totex) and S2 (2% decrease in inflation metrics)	Reduction in AICR headroom; fall in cash balances	PR1; PR3; PR4; PR6; PR8; PR9; PR10; PR11	Cash reserves; cost control; working capital management; capital reprofiling; dividend restriction
S8 – Combined Operational Shock	Combination of S3 (one-off exceptional event) and S6 (ODI/ PCD penalty scenario	Reduction in AICR headroom; fall in cash balances	PR1; PR3; PR5; PR7; PR8; PR11	Cash reserves; cost control; working capital management; capital reprofiling; dividend restriction
S9 – Aggregate Severe Scenario	Combination of S3 (one-off exceptional event), S4 (penalty/ fine of £10 million), and S6 (ODI/PCD penalty scenario)	Reduction in AICR headroom; fall in cash balances	All Principal Risks (PR1–PR11)	Cash reserves; cost control; working capital management; capital reprofiling; dividend restriction

Viability statement continued

Totex Expenditure Sensitivity (S1)

A 15% increase in totex (Wholesale Appointed expenditure – excludes non appointed and Retail) is considered sufficient to capture potential exceptional financial impacts. These may arise from regulatory fines and legal costs (PR1, PR4, PR8), weather-related incidents (PR6), water quality issues (PR3), and unfunded costs excluded from Ofwat's price control framework.

Inflation Sensitivity (S2, S7)

A 2% reduction in RPI, CPI and CPIH represents a severe scenario given the company's exposure to inflation-linked debt, operating costs and revenue. These factors create natural hedges, partially offsetting lower inflationary revenue adjustments.

One-Off Exceptional Event (S3)

This scenario includes £80 million capex and £30 million opex in year 1, followed by legacy opex of £15 million in year 2 and £10 million in year 3, reflecting the sustained impact of major operational events.

Penalty or Fine (S4)

This reflects a £10 million one-off cost arising from regulatory enforcement, legal claims, environmental penalties or other exceptional items.

Increase in Cost of Debt (S5)

A 3% rise in the cost of debt represents a severe refinancing or credit-rating stress. The directors consider this to cover the potential impact of a downgrade, while assuming the company maintains investment-grade status.

ODI/PCD Penalty Scenario (S6)

A £5 million per annum penalty has been assessed as sufficient to model severe underperformance against service measures (PR5, PR7 and PR11).

Combination Scenarios

S7 – Totex & Inflation Stress

This scenario reflects rising costs coinciding with falling inflation, resulting in margin erosion, weaker revenue indexation and increased funding needs.

S8 – Exceptional Event & ODI/PCD Penalty

This stress test captures the intersection of a major operational incident and regulatory performance penalties, such as those linked to water quality, leakage or customer service.

S9 – Aggregate Severe Scenario

This extreme scenario models a major operational incident together with a £10 million fine and ODI underperformance. It tests liquidity, covenant compliance and access to capital under simultaneous, material stresses.

Additional Assumptions and Considerations

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

The company's available liquidity and access to short term funding;

- The company's ability to renew its existing short-term borrowing facilities under most market conditions;
- The company's ability to raise debt in the capital markets over the 10-year assessment period;
- 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 135 for further details);
- Ofwat's primary legal duty under the regulatory model to ensure that water companies can finance their functions, providing additional confidence in the company's ability to meet financial obligations even under stress; and
- Engagement with rating agencies.

Based on the above assumptions and analysis presented, 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.

Results of each stress test on our financial covenants

The table below shows that for all nine stress scenarios tested, the company remains compliant with its key financial covenants, without the need for mitigation. However, some rating agency measures are not met in certain stress scenarios, and the mitigation actions noted in the table above are required to ensure compliance with these thresholds. 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 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 3% increase in cost of debt stress test.

Viability statement continued

Scenario	Rating agency measures		Key covenants		Rating agency measures		Key covenants	
	Adjusted interest cover	Funds from operations to debt ratio	Interest cover ratio (conformed Class A adjusted)	Gearing (senior net indebtedness to RCV)	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	Met	Met	Met	Met
01	Not met	Not met	Met	Met	Met	Met	Met	Met
02	Met	Met	Met	Met	Met	Met	Met	Met
03	Not met	Met	Met	Met	Met	Met	Met	Met
04	Met	Met	Met	Met	Met	Met	Met	Met
05	Met	Met	Met	Met	Met	Met	Met	Met
06	Met	Met	Met	Met	Met	Met	Met	Met
07	Not met	Met	Met	Met	Met	Met	Met	Met
08	Not met	Met	Met	Met	Met	Met	Met	Met
09	Not met	Met	Met	Met	Met	Met	Met	Met

The company remains fully compliant with all WBS Covenant requirements, no default occurs across any modelled scenarios, including those most severe scenarios. This is supported by a reduction in gearing to 69.1% at year end, representing an improvement in the company's financial position and increasing headroom against covenant thresholds. However, not all rating agency measures are met in scenarios 01, 03, 07, 08 and 09.

The most adverse totex scenarios (S1 and S7) apply sustained pressure to financial performance, primarily due to elevated operational and capital expenditure. While these scenarios create stress, overall financial resilience is maintained and the likelihood of a credit rating downgrade below investment grade remains low.

Scenarios involving exceptional one-off events (S3, S8, and S9) show limited short-term impact on rating metrics and remain comfortably within WBS covenant thresholds. The company's capital structure provides sufficient flexibility to manage such events without compromising long-term viability.

Based on the stress testing and scenario analysis performed, the Board has a reasonable expectation that the company will be able to continue operating and meet its financial obligations over the 10-year assessment period.

The company has completed Year 1 of AMP8 following the PR24 Final Determination, which provides a significantly improved financial position compared to AMP7. This improvement is supported by increased regulatory allowances and the receipt of £150 million of new equity from shareholders, strengthening the Company's financial resilience over the assessment horizon.

Non-financial information statement

Non-financial information statement

We comply with the non-financial reporting requirements set out in sections 414CA and 414CB of the Companies Act 2006. This information is integrated throughout our Annual Report and Financial Statements. The table below is designed to help locate key elements on non-financial matters.

As a large company under the Companies Act 2006, we report on environmental, employee, social, human rights, and anti-bribery and corruption matters to provide a comprehensive understanding of our development, performance, position, and the impact of our activities. The table also references the policies, guidance, and standards that govern our approach, with links to further details available on our website.

Reporting requirement	Information necessary to understand our business and its impact	Policies, guidance and standards which govern our approach
Social matters	• The communities we serve (page 04) • Chair's introduction (pages 13 and 14) • Regulators and water cycle (page 17) • Operational performance for year 1 (pages 06 to 11) • CEO's introduction (page 15) • Our business model (pages 17 to 20) • Our approach to sustainability (pages 22 to 24) • Our focus areas to 2030 (page 05) • Our planning horizons (page 20)	• Our Purpose and Vision (page 02) • Our business model (pages 17 to 20) • Our approach to sustainability (pages 22 to 24) • Our alignment to UN SDGs (page 25 to 26)
Environmental matters	• Chair's introduction (pages 13 and 14) • Regulators and water cycle (page 17) • Operational performance for year 1 (pages 06 to 11) • CEO's introduction (page 15) • Our business model (pages 17 to 20) • Our approach to sustainability (pages 22 to 24) • Our focus areas to 2030 (page 05) • Our external environment (page 18)	• Our Purpose and Vision (page 02) • Our business model (pages 17 to 20) • Our approach to sustainability (pages 22 to 24) • Our alignment to UN SDGs (pages 25 to 26) • Environmental Risk and Opportunity report (pages 31 to 57)
Community issues	• The communities we serve (page 04) • Section 172(1) statement (pages 61 to 64) • Our planning horizons (page 20) • Financial review (pages 58 to 60) • Principal risks and uncertainties (pages 69 to 76) • Our alignment to UN SDGs (pages 25 to 26) • Environmental Risk and Opportunity report(pages 31 to 57)	• Our Purpose and Vision (page 02) • Our approach to sustainability (pages 22 to 24) • Our focus areas to 2030 (page 05)
Employees	• Chair's introduction (pages 13 and 14) • CEO's introduction (page 15) • Company culture (page 113)	• Our Purpose and Vision (page 02) • People and Culture Strategy (page 113) • Equality, Diversity and Inclusion training (page 113) • EDI strategy (page 113) • Gender pay gap (page 132)
Respect for human rights	• Safety, health and wellbeing (pages 70, 93, 95, 97 and 116) • Promoting a culture of diversity and inclusivity throughout the workplace (page 111 and 113)	• People and Culture Strategy (page 113) • Modern slavery and human trafficking (pages 35 and 95) • Safety, health and wellbeing (pages 70, 93, 95, 97 and 116) • EDI strategy (page 113)

Non-financial information statement continued

Reporting requirement	Information necessary to understand our business and its impact	Policies, guidance and standards which govern our approach
Anti-corruption and anti-bribery	• Our code of ethics (page 35)	• Our code of ethics (pages 35 and 100) • Whistle-blowing policy (pages 95 and 103) • Risk management and internal controls (pages 103-104)
Description of principal risks	• Principal risks and uncertainties (pages 69 to 76) • Viability statement (pages 77 to 80)	• 'Three lines of defence' assurance process (page 104) • Risk management and internal controls (pages 103-104) • Legal obligations register (page 104)
Description of business model	• Our business model & strategy (pages 17 to 20)	• Chair's introduction (pages 13 and 14)
Non-financial KPIs	• 2025/26 Highlights (page 03) • Measuring how we are doing - Performance highlights (pages 06 to 11)	• Regulators and water cycle (page 17)

Mike Brown CBE MVO
Company Chair
30 June 2026

In this section

Introduction from the Chair

Highlights

- Welcomed Mark Garth as our new CEO in June
- Successful external Board effectiveness evaluation conducted by Board Intelligence
- Two Board strategy days affording Board dedicated time to forward-looking strategy
- Proactive steps taken to align and comply with Ofwat's Fitness and Propriety Rule 2025
- Closely monitoring the Government's programme to reform the water industry with regular briefings

Dear Stakeholders,

I am pleased to present our Corporate Governance Report for 2025/26 on behalf of the Affinity Water Board prepared in accordance with the UK Corporate Governance Code 2024. Our report sets out how the company complies with the high standards of corporate governance expected of a regulated water company and how we incorporate the valued interests of customers, shareholders and regulators.

Renewed Board strength

Over the past reporting year as a board, we have played a significant role in selecting a new Chief Executive following the resignation of the previous incumbent in October 2025. Our Nomination Committee Report on pages 109-113 sets out in detail the search and recruitment process undertaken to appoint Mark Garth, and also highlight some of the induction underway. The Board is grateful to our former CEO, Keith Haslett for his leadership during his tenure and for facilitating a smooth transition to Mark who took up his position in June 2026.

As previously announced, interim arrangements covering the interim period were put in place for me as chair to provide support for the Executive Leadership Team supported by one of our existing independent non-executive directors, Chris Newsome; his advice and counsel during this time has been much appreciated. The executive team has done an excellent job in ensuring consistency of focus across the business during this transitional period.

Board external evaluation

This year we commissioned Board Intelligence to conduct an external board evaluation which was carried out between December and February and reported to Board in March. We were pleased to have been identified as a strong and stable Board. Further details of the report prepared by Board Intelligence can be found on page 91 along with an overview of the areas of focus that we as a Board will be taking forward.

Water (Special Measures) Act 2024

As I mentioned in my Chair's Statement on page 13, Affinity are operating in the context of industry reform and we are committed to full collaborative compliance and alignment with incoming statutory changes. Following the implementation of the Water (Special Measures) Act 2024, we have sought to ensure that company policies and procedures fully align with the new provision. Our compliance with the new performance related executive pay rule is highlighted in our Remuneration Report on pages 114-132. We have also committed to proactively comply with Ofwat's new Fitness and Propriety Rule 2025 for new and existing directors which came into effect on 1 April 2026 and our approach to this can be found on page 112.

Strategy planning

The Board held two strategy-focused away days during the year. These are important opportunities for us as a group to consider the forward-plan and review the strategies surrounding the company's AMP8 deliverables. We will probably hold another two strategy days next year.

Looking forward

After more than a year in post as Chair, I am encouraged to witness the continued hard work and commitment demonstrated by the ELT and all of the employees of Affinity Water across of the business. Mark Garth our new CEO recently began his role and I am pleased to acknowledge his determination to embed into the business efficiently and effectively to drive for further business improvements. We feel confident that his leadership will see Affinity continue to perform well as we move further into AMP8 and beyond.

Mike Brown CBE MVO
Company Chair

30 June 2026

Documents on our website include:

Matters reserved to the Board

Non-Executive Director letters of appointment

Terms of Reference for Board Committees

Our Board of Directors

Mike Brown CBE MVO
Chair

N R E

Date of appointment
October 2024 (as Chair Designate)
Feb 2025 (as Chair)

Career
Mike joined Affinity Water in October 2024 as Chair Designate and took over the Chair role formally in February 2025. His prior roles include Commissioner for Transport for London, the world's largest regulated transport authority and he led the Mayor's multi-billion pound investment programme, including the preparation for the highly successful 2012 London Olympics. Mike was also Managing Director of Heathrow Airport during a large-scale transformation and passenger improvement programme as well as Chair of Restoration & Renewal Delivery Authority Ltd, Houses of Parliament which was established to manage the major renewal and restoration programme of the Palace of Westminster. He was appointed a member of the Royal Victorian Order (MVO) in 2002 and as a Commander of the British Empire (CBE) in 2020. Mike has previously held roles as Chair of the Rail Safety and Standards Board, as well as previously an Adviser and Independent Chair of the Shareholder Committee for Mott MacDonald.

Skills and experience
Mike has extensive experience in the role of Chair across a number of industries, particularly transportation and construction. Mike holds an honorary Doctorate from the Queen's University of Belfast and is a Fellow of the Royal Society of Arts and of the Chartered Institute of Logistics and Transport. Mike is a double alumnus of Windsor Leadership having participated in the Experienced Leaders programme and Strategic Leaders Consultation.

Current external appointments
Mike was appointed as Chair of HS2 Ltd in July 2025 and is a Non-Executive Board member of Translink.

Mark Garth
Chief Executive Officer

E

Date of appointment
June 2026

Career
Mark joined Affinity Water in June 2026 as CEO. Mark has extensive experience in the water sector with a career spanning 25 years, holding a number of senior and executive roles, initially at Severn Trent Water and then later at United Utilities, where he led its wastewater operations with responsibility for multi-billion-pound asset and capital programmes, and most recently heading up its environmental portfolio and strategic improvement-programme delivery.

Skills and experience
Mark is a Chartered Water and Environment Manager and member of the Chartered Institution of Water and Environmental Management and has a wealth of utilities sector experience in senior roles spanning operations, regulation, resilience, capital delivery and transformation.

Considered an expert in water and wastewater process design, operations & maintenance, Mark has worked with academia, regulators and national & devolved governments (Govt Office for Science, Department for Health & Social Care, Department for Environment, Farming & Rural , and Department for Energy Security & Net Zero) over several years to develop and evolve policy.

Adam Stephens
Chief Financial Officer

Date of appointment
January 2025

Career
Adam joined Affinity Water as CFO in January 2025. Adam has a wealth of experience in corporate finance and business strategy as well as extensive water-industry knowledge having previously held a number of senior finance roles at Severn Trent Plc, as well as Executive Director and Chief Financial Officer at Hafren Dyfrdwy which is a Water and Waste Water Company covering North and Mid-Wales (a subsidiary of Severn Trent).

Skills and experience
Adam is an experienced finance professional and has extensive water sector experience and regulatory knowledge. Adam is a fellow of the ICAEW having trained as a Chartered Accountant with Deloitte and is qualified with the Association of Corporate Treasurers.

Key

A Audit, Risk and Assurance Committee
R Remuneration Committee
N Nomination Committee
E Environment Social and Governance Committee ('ESG Committee')
Indicates Chair of Committee

Independent
Non-Executive Directors

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. He has also held positions as Non-Executive Director and Chair of the Audit and Risk Committee of Marshall of Cambridge (Holdings) Ltd.

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. He was appointed AWL Senior Independent Director on 1 September 2024.

Current external appointments
Justin stepped down as Senior Independent Director and Chair of the Audit Committee of Grainger PLC this year after nine years' service and also recently stepped down from his Non-Executive Director role at Ibstock PLC. He holds no other external appointments.

Chris Newsome OBE
Independent Non-Executive Director

A N E

Date of appointment
January 2019

Career
Chris has extensive experience across large, regulated infrastructure businesses and over 45 years' experience within the water industry at Yorkshire Water, Kelda Water, Anglian Water and now at Affinity 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 wealth of experience in strategic planning, procurement, construction, operation and maintenance of large asset bases. He is a Fellow of the Institution of Civil Engineers and a Fellow and Past President of the Institute of Asset Management. He holds an MBA from Manchester Business School and a post-graduate diploma in Structural Engineering from the University of Bradford. 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 and chair of the Infrastructure Group. He is a Director of The UK Water Partnership. He was appointed to the Government's new Circular Economy Task Force in November 2024.

Shelley Malton
Independent Non-Executive Director

R N

Date of appointment
December 2023

Career
Shelley was a FTSE-30 operating Board level Managing Director with Natwest Group plc, with a strong commercial focus delivering customer centricity, people leadership, cultural and transformational change. With over 30 years of experience in the financial services industry, she has led major transformations at Natwest Group plc, Vodafone, Experian, Barclays, including customer experience, outsourcing, automation and operations transformations.

Skills and experience
Shelley brings a proven 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 currently Group Chief Operating Officer at Monzo Bank Limited.

Key

A Audit, Risk and Assurance Committee
R Remuneration Committee
N Nomination Committee
E Environment Social and Governance Committee ('ESG Committee')
Indicates Chair of Committee

Shareholder-nominated
Non-Executive Directors

Roxana Tataru
Non-Executive Director

R N

Date of appointment
July 2021

Career
Roxana is currently Managing Director at Allianz Global Investors 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 Unsere Grüne Glasfaser (UGG), a greenfield fibre network in Germany and has been a director of four Porterbrook Group companies since 2022.

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 & 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 has been a Managing Director at InfraRed Capital Partners since October 2021 and oversees investments including Arqiva and High Speed One. He is also a director of Barnet Hospital and a number of PPP projects in the Netherlands.

Adam Waddington
Non-Executive Director

N E

Date of appointment
May 2023

Career
Adam Waddington is a Managing Director at CVC DIF Capital Partners and head of the Portfolio team. Adam joined CVC DIF in 2013 and has served as board member for a number of companies in the social, economic and renewables infrastructure spaces. This has included offshore and onshore wind, hospitals, roads, housing, and education projects. Adam established the Portfolio team at CVC DIF to provide analytics, performance reporting and valuations across the range of CVC DIF investments.

From 2006 to 2013, Adam developed investments in the PPP and regulated sectors at Babcock & Brown and subsequently Amber Infrastructure. On the regulated side this was within the OFTO (Offshore Transmission Operator) sector.

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 in 1996 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.

Key

A Audit, Risk and Assurance Committee
R Remuneration Committee
N Nomination Committee
E Environment Social and Governance Committee ('ESG Committee')
Indicates Chair of Committee

Corporate Governance Report

Our governance framework and division of responsibilities

The Board

Our Board takes responsibility for setting the Group's strategy for delivering mutual long-term value to our stakeholders and providing effective challenge to the executive.

Board Committees

Each Board Committee has its own Terms of Reference which are available on the company's website.

Audit, Risk and Assurance Committee
Oversees financial reporting & monitors internal controls

ESG Committee
Reviews ESG compliance and opportunities

Nomination Committee
Oversees composition, succession, skills, diversity & conflicts

Remuneration Committee
Ensures link between performance & remuneration

Chief Executive Officer

Executive Leadership Team ('ELT')

The senior directors across the key areas of the business, comprising the ELT, are responsible for developing, supporting and executing the company's strategy.

Role	Responsibility
Chair	The Chair leads the Board and is responsible for its overall effectiveness in directing the company. They promote 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	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	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')	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	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	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.
Company Secretary	The 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.

Corporate Governance Report continued

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 Company Secretary. Papers and reports prepared for both the Board and Committees are required to be clear and concise. They are circulated at least five working days before the meeting and are accessed through a secure online board portal. The authors of Board papers and reports are invited to join Board discussions as appropriate. This allows directors to consider the information provided in detail and seek clarity from executive management directly. Minutes of Board and Board Committee meetings are circulated by our Company Secretary after each meeting. All directors have full access to our 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 effective implementation by the ELT. Two Board strategy days were held in July and November 2025, where directors reviewed the company strategy by way of a series of deep dives. The Board requires regular updates on the progress of delivering the strategic objectives throughout the year.

Risk management

Our robust governance framework supports the development and delivery of strategy by way of a sound system of risk oversight, management, and an effective suite of internal controls. These are detailed further in the Audit, Risk and Assurance Committee report on pages 101-108.

Board meeting attendance

The Board and its Committees continue to conduct meetings both in-person and remotely via Microsoft Teams. Attendance records of the current Board are retained and every director attended all Board meetings during the year other than Mike Brown who gave apologies for one meeting in January 2026. All directors receive papers in advance of every meeting via the online board portal for pre-reading and, in the event a director is unable to attend a meeting, they are encouraged to give feedback and/or raise any issues to the relevant Chair ahead of the meeting which can be fed into discussion.

Independence of the Board

Independence of the Board is assessed on an annual basis and as at 31 March 2026, our Board comprises four Independent Non-Executive Directors, including the Chair, three Non-Executive Directors and two Executive Directors. In line with Ofwat's BLTG principles, Independent Non-Executive Directors also make up a majority on each of the Board Committees.

External directorships and time commitment

The anticipated time commitment required from Independent Non-Executive Directors to effectively fulfil their responsibilities on the Board is set out in a director's letter of appointment. 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. Any new proposed additional external appointments or other new significant commitments are disclosed to the Chair and the Board by a director as they arise and require Board approval.

All significant time commitments outside of the company are set out in the directors' biographies on pages 85 to 87 alongside each Director's biographical details and independence.

External appointments are closely monitored to ensure that each director has sufficient time to fulfil their obligations to the Board.

Conflicts of interest

The Board maintains a conflict of interests' register governed by a Board Conflicts of Interest Policy, which restricts a Director from voting on any matter in which they might have a personal or other relevant 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 Board will consider and impose any necessary mitigating measures.

Board balance

An effective Board requires a balanced mix of professional skills and experience in addition to varied backgrounds and individual perspectives. Our Board offer a diverse mix of experience, industry knowledge and insight, with an overview of the current key skills and attributes of each member shown overleaf. This Board balance underpins an effective team focused on promoting the long-term success of the company for the benefit of all stakeholders. The largest group on our Board is Independent Non-Executive Directors including the Chair. The composition of the Board as at 31 March 2026 is illustrated on pages 85 to 87.

Board appointments

Appointments to our Board are made on the recommendation of the Nomination Committee with due consideration given to the benefits of diversity, inclusion and equal opportunity and acknowledgment of the importance of diversity of skills, background and personal strengths as a driver of the Board's effectiveness. The Nomination Committee report, on pages 109 to 113, provides further information on Board composition, appointments, induction, training, succession planning and diversity from 2025/26.

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.

Corporate Governance Report continued

Board balance, skills and experience

		Mike Brown	Mark Garth	Keith Haslett	Shelley Malton	Chris Newsome	Mike Osborne	Justin Read	Adam Stephens	Roxana Tataru	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	■	■	■	▲	■	▲	▲	▲	▲	▲
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 chairship)

● **Secondary capability** – indirect experience through executive responsibility or area of specific Board focus (e.g. through Committee membership)

▲ **Background experience only**

Corporate Governance Report continued

Evaluating our Board

The Board is committed to a review of its effectiveness annually. In line with best practice set by the FRC's Guidance on Board Effectiveness, an externally facilitated review is conducted every three years. However, as reported in our Corporate Governance Report 2024/25, we delayed this external evaluation to allow the new members of the Board adequate time to establish themselves in role. We appointed Board Intelligence in November 2025 to undertake an external assessment of Board effectiveness. Board Intelligence also provide our online board portal. The format of assessment included bespoke online survey completion and 1-2-1 meetings with each Board member. A key component of the evaluation included evaluator attendance and observation of a Board meeting and therefore Board Intelligence was invited to join the Board session in January 2026. The review considered both the performance of the Board, and each of its Committees, as well as that of the Chair and each of the non-executive directors. A discussion of the results of the full assessment was undertaken by the Board in March 2026. The Board were found to be thoughtful, skilful and stable with directors striking a good balance between robust and constructive challenge and deep sector and operational expertise. Areas where Board's performance could be further enhanced are set out below along with our initial considerations and steps for change.

2025/26 evaluation key findings

Identified focus area	Action plan and initial progress
Agenda structure	Chair, CEO and Company Secretariat will work collaboratively to make more dedicated space in both the Board's annual planner and strategic sessions, as well as informal opportunities, for deeper, forward-looking discussion on the issues that shape the company's long-term performance.
Board papers	Continue internal efforts to upskill paper authors to make papers more succinct, strategically-focused and better quality.
CEO transition	Stability and momentum are front of mind and a robust induction programme has been carefully prepared for the CEO to ensure he settles into role quickly and has all of the tools required to sustain AMP8 momentum.

Progress on 2024/25 outcomes

Area	Action taken
Board training programme	A new bespoke Board training programme was developed with the support of the Nomination Committee and is being launched in 2026. This programme is interweaved into existing meeting cadence along with additional remote sessions and includes sessions supporting the requirements of the new fitness and propriety rule introduced by the Water Special Measures Act.
Feedback between Chair and directors	During his first year in role, the Chair has sought to build strong working relationships with each of our Board members. 1:1 feedback sessions have been scheduled between each of the iNEDs and Chair as part of the annual performance review process.
AMP8 delivery plan	Board strategy days were held in July and November 2025 included strategic focus on AMP8 delivery plans with presentations from members of the executive team and open Board discussion with regular updates presented to Board through the rest of the year to maintain oversight.

Corporate Governance Report continued

During the year, the following key activities were undertaken by the Board:

Area	What was reviewed and considered?	Relevant stakeholders
Strategy	• Reviewed and monitored the company's business strategy • Reviewed and monitored the capex delivery plan for AMP8 • Approved the Drought Management Plan for 2027 • Reviewed the Pollution Incident Reduction Plan • Reviewed the energy efficiency and property strategies • Reviewed and approved assurance statements for the next stage Gate submission for the Grand Union Canal and White Horse Reservoir Projects • Approved the budget for the second phase of the customer transformation project and reviewed and monitored progress • Reviewed and monitored industry reform updates. • Monitored cyber security activities and reviewed and approved performance against the Cyber Assessment Framework	
Finance	• Approved (ultimately approved June 2026) the Annual Report and Financial Statements for the financial year ended 31 March 2026 • Reviewed and approved an updated dividend policy • Approved the payment of a dividend. • Approved the implementation of the recommended compliance processes and controls relevant to the requirements of the Economic Crime and Corporate Transparency Act 2023 – Offence of Failure to Prevent Fraud and approved the accompanying policy • Approved the company's budget for the 2026/27 financial year • Provided oversight and approval of relevant financial policies, ensuring compliance with the company's Instrument of Appointment • Additional governance scrutiny provided by the Audit, Risk and Assurance Committee	
People	• Approved the appointment of a new CEO • Approved a new pensions strategy • Approved the company's policy on Modern Slavery and Human Trafficking • Approved the 2026/27 workforce pay award	
Governance	• Commissioned an external Board Performance Review led by Board Intelligence to assess Board performance, composition and effectiveness • Considered the output from the Board and Board Committee performance reviews • Undertook a review of stakeholder engagement and the strength of each relationship • Aligned internal governance with UK Corporate Governance Code 2024 provisions • Undertook annual reviews of Chair and iNEDs performance	

Key

Customers
Suppliers
Shareholders
Communities
Regulators
Employees

Corporate Governance Report continued

Area	What was reviewed and considered?	Relevant stakeholders
Water Quality	• Regularly reviewed status of the water quality performance commitments • Considered Drinking Water Inspectorate (DWI) assessment reports	
Health and Safety	• Approved the Health, Safety & Wellbeing policy • Tracked metric performances against target • Considered quarterly updates from Zero Harm Steering Group • Received briefings on the RIDDOR Dangerous Occurrence and Lost Time Injuries and considered learnings and actions to be taken	
Wellbeing	• Received updates on wellbeing programme for employees on quarterly basis • Reviewed Tap In survey results focusing on employee wellbeing and mental health	

At each Board meeting, standing items include:

- Declaration of interests
- Declaration of compliance with Ofwat's fitness and propriety rule requirements.
- Review and approval of the previous minutes
- Status update on any outstanding actions from previous meetings
- Regular updates from each Committee to the Board
- Board and stakeholder engagement activities
- Business Scorecard Report from the Chief Executive Officer
- Report from the Chief Financial Officer

Key

Customers
Suppliers
Shareholders
Communities
Regulators
Employees

Corporate Governance Report continued

Board leadership and company purpose continued

Corporate Governance Statement

The company remains committed to high standards of corporate governance and transparency. The Board governs the company in accordance with the UK Corporate Governance Code 2024 (the 'Code') as well as the provisions of the Ofwat Board Leadership, Transparency and Governance Principles 2019 ('BLTG Principles'). We confirm that we have complied with the relevant 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 three Independent Non-Executive Directors, three Shareholder-Nominated Non-Executive Directors and two Executive Directors. We have carried out our own annual independence assessment and consider the Board to be sufficiently independent.
- Composition of Audit, Risk and Assurance Committee (ARAC) and Remuneration Committee: Provisions 24 and 32 - Each of our ARAC and Remuneration Committees comprise a majority of Independent Non-Executive Directors in addition to a Shareholder- Nominated Independent Director. Committee membership is set out on the first page of each of the Committee reports.

Engagement with our stakeholder group

This section details how we have engaged with different stakeholder groups; which stakeholders we've spoken to, and worked with, over the last financial year. The Board's consideration of stakeholder interests and its statutory duties under section 172(1) of the Companies Act 2006 are set out in full in the Section 172(1) statement on page 61 onwards.

Regulator engagement

Ofwat

As a water company, Ofwat is both our regulator and a stakeholder, with whom we communicate regularly, led by our Director of Regulation and Strategy and supported by the ELT. Our dialogue includes consultations on all aspects of the water industry, our governance, pricing and significant focus this year on the industry reform. We fully aligned with Ofwat's BLTG Principles, details of which are below:

BLTG Objective	Affinity Water Objective
Purpose, values, and culture	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 initiatives
Stand-alone regulated company	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 skill diversity 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	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's governance framework • Aligning Board and Executive remuneration with performance against our purpose and objectives
Board structure and effectiveness	• 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 on an annual basis • Reviewing Board composition and balance • Enhancing directors' induction and training programmes • Evaluating the Board and reviewing its effectiveness and that of its Committees

Corporate Governance Report continued

Speaking with our shareholders

Details about our Group's structure, ownership, and financing are available from page 133 onwards, showing that Affinity Water is owned by a group of private investors. Each investor has a representative on our Board: Roxana Tataru serves as the Shareholder-Nominated Non-Executive Director for Allianz Global Investors; Mike Osborne represents InfraRed Capital Partners; and Adam Waddington acts for CVC DIF.

To keep the Board focused on company activities and all stakeholder interests, we have established a process for shareholder engagement, allowing their perspectives to inform Board discussions without affecting the Board's independence, leadership, or governance.

Our Board considers shareholders' views during its meetings but ultimately makes independent decisions in the company's best interests. Affinity Water appreciates the valuable experience and expertise our shareholders contribute to decision-making.

Only a limited number of decisions require direct consultation with shareholders before being finalised.

These matters, which closely resemble the control rights held by Affinity Water's senior financiers, are outlined in the governance framework document 'Engaging with our shareholders' at: **affinitywater.co.uk/governance**, available on our website's governance pages.

During 2025/26, 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 2026/27
- Recruitment and appointment of Mark Garth as new CEO
- External effectiveness review, which included feedback from each shareholder- nominated Non-Executive Director

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. The Board relies on a combination of formal and informal engagement methods, which are detailed in the Section 172(1) statement on page 61 onwards of this Annual Report , to reach all our employees (including individuals engaged under contracts of service, agency workers and remote workers).

Our Non-Executive Director of Employee Engagement, Chris Newsome, attends various internal events and activities during the year, as a key representative of the Board. This year Chris has spent time with various teams across the business including the biodiversity team at Oughton Head Treatment Works, and the contact centre team at our Hatfield headquarters. He attended Groundswell with ELT directors and colleagues across the business, and participated in briefings on our mentoring scheme, early career pathways and appeared in our International Women's Day promotion.

Chris also liaises with the People team and provides challenge and guidance on our employee engagement programme, which encourages our employees to stay engaged and connected with the company via a multitude of mediums such as wellbeing webinars, an annual programme of EDI events and company-wide seminars. 38 employees are qualified mental health first aiders appointed to support the mental health and wellbeing of our employees.

Workforce policies and procedures

The Board and ELT oversee workforce policies, which are reviewed regularly and accessible via Athena, our company's policy management system. Employees receive induction training and updates through official channels, with all employment policies highlighted on the Wave, the company's intranet.

Mandatory e-learning, managed by the Learning and Development department with subject expert input, ensures policy understanding and compliance. The Board supports employee trade union membership, with regular meetings between leadership and trade unions.

Employees can raise concerns confidentially and anonymously through 'Luminate,', an independent 24/7 web and phone helpline, as advertised across the business and detailed in the Whistleblowing Policy and ARAC Report (page 103). All reported incidents were investigated, some resulting in strengthened controls, affirming Board confidence in the policy's effectiveness.

The Board enforces a zero-tolerance approach to modern slavery and human trafficking, with related policy and statement approved by the Board and available online. Compliance applies company-wide; procurement monitors supplier adherence and reports breaches to the CFO and Board.

No cases of modern slavery or human trafficking were reported this year.

By order of the Board

Simon Pugsley
General Counsel and Company Secretary

30 June 2026

ESG Committee Report

Chris Newsome OBE
Chair of the ESG Committee

Committee members

Mike Brown

Adam Waddington

Mark Garth

Member	Member since[1]	Scheduled Meetings Attended
Chris Newsome Chair		4 4
Keith Haslett Committee member	Stepped down 31 March 2026	4 4
Adam Waddington Committee member		4 4
Mike Brown Committee member		4 4
Mark Garth	Joined 15 June 2026	

The Committee is required to comprise at least four members, at least two of whom shall be independent Non-Executive Directors. The Committee was compliant with these terms throughout the year.

1 if after 1 April 2025

Key
Meetings attended
Possible meetings

Dear Stakeholder,

I am pleased to introduce this report, detailing the work of our ESG Committee in the year 2025/26. The reporting functions involved include Environment, Social and Governance performance and strategy.

At Affinity Water, ESG underpins the delivery of our purpose, which 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.

The Committee has set an ambitious ESG programme in AMP8, integral to the Affinity business plan. This ensures strategic focus and direction is given to ESG matters. This also means that we monitor and minimise risks and maximise opportunities to add social and environmental value from our activities. It also maintains an overview of how activities and programmes fit together into a coherent set of strategies and policies to deliver against the company's purpose and objectives.

The Committee worked in coordination with other Board Committees to align data integrity and executive incentives with ESG targets. The Audit, Risk and Assurance Committee (ARAC) helped ensure ESG information has been appropriately assured and embedded in the risk management process. The Remuneration Committee provided advice in relation to appropriate ESG-related components of the company's remuneration framework.

There are six overreaching objectives that were set with the aim to add greater public value beyond core service provision, broader than social impact on its own. These include:

1. Achieving Net Zero by 2050*;
2. Increasing operational resilience by adapting to climate change impacts;
3. Delivering positive outcomes for nature;
4. Providing efficient and affordable customer service;
5. Investing in community and future skills;
6. Promoting and maintaining the highest standards of ethics and conduct.

*Target updated to align with the UK Government's 2050 Net Zero commitment; underlying sector assumptions have evolved since 2021, increasing the scale of the challenge.

This year our main ESG achievements are:

- Our environmental programme, in line with the Water Industry National Environmental Programme (WINEP) is on track to deliver sustainability reductions and river restoration projects (see: **River Beane restoration Project**). Our catchment management programme has delivered over 3,000 ha of cover and companion crops in our supply area.
- We have developed natural capital approaches and increased biodiversity on our land and have reviewed Net Zero targets and carbon reduction strategies in capital projects. We are well placed to exceed our biodiversity target because of the early work to understand biodiversity potential on our land and established baselines for each of our sites.

ESG Committee Report continued

- Our gender pay gap narrowed, consistent with the downward trend observed in the past four years. Our internal engagement scores for Peakon Survey placed Affinity in the first quartile of all utility companies. (see: **Gender and Ethnicity Pay Gap Report 2025**)
- Our customer assistance programmes supported over 140,000 customers struggling to pay and our governance programme, underpinned by the Code of Conduct, provided internal and external ethical and reputational benchmarks for the company.
- We have developed a social value strategy to provide a lasting legacy to the communities alongside our **Grand Union Canal Transfer**.
- Our economic activities and investment have been assured against EU Taxonomy resulting in one of the highest alignments across water utilities, with over 90% activities classified as sustainable.

The Board continue to maintain strong and ambitious commitment to an ESG led approach and believe that this should be central to our work. Our focus on ESG helps the Board to quantify the impact the company has on the wider environment and society that it operates in, as well as identify the risks and opportunities. We are in a strong position at the end of the first year of AMP8, having established the areas in which the company is taking a leadership position across the sector.

Main responsibilities

	Scope	Remit
Environment	Performance programmes and plans including: • water resource management plans and sustainable abstraction; • controlling the risks and impacts of pollution; • leakage and PCC reduction; • climate change mitigation (energy efficiency, transition to electric fleet and Net Zero strategy) • climate change adaptation and resilience action plans and investment • resource use and circular economy; and • natural capital; biodiversity; net gain, and changes to the environmental regulatory landscape. • wider environmental impact mitigation (improving landscapes and water catchments to safeguard water quality and deliver wider ecosystem benefits)	• 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
Social	Performance programmes and plans including: • workplace matters such as employee engagement, EDI, health, safety and wellbeing; learning and development; • customer service and engagement on affordability; contractor and supplier management and wider community matters including volunteering and charitable contributions; developing and fostering partnerships with community (except matters relating to Board diversity which are considered by the Nomination Committee, executive remuneration policy which are considered by the Remuneration Committee)	• Review and monitor social matters arising from the company's activities and operations, including monitoring performance against targets on people, customers and community • Consider the strategic business and reputational implications of public value creation to optimise it where appropriate
Governance	Matters relating to ethical and transparent business practice, culture, and the green finance framework (except matters relating to policies and controls for whistleblowing, fraud, compliance, anti-bribery, and internal control and external audit, which are considered by the Audit Risk and Assurance Committee).	• Review and monitor principles of good corporate governance set out in the UK Corporate Governance Code • Review and monitor the supply chain increasing understanding of their obligations with respect to corporate responsibility

ESG Committee Report continued

ESG Risk and Opportunities Management

We have an established framework for identifying, evaluating and managing key risks for Affinity Water. The main aim is to foster a culture where teams throughout the business manage risks as part of their day-to-day operations. The ELT also carry out regular assessments of emerging risks and opportunities, including horizon scanning and monitoring of early warning indicators.

Integrating ESG into the risk framework enables us to identify where ESG related issues affect key risks and opportunities. We have mapped our E,S and G risks to the existing corporate strategic risk register and are in the process of developing a monitoring tool to understand how changes in those risks affect our overall business operations.

We use reporting frameworks, Task Force for Climate-related Financial Disclosures (TCFD) and Taskforce for Nature-related Financial Disclosures (TNFD), where we provide update on progress identifying and addressing climate related and nature related risks and opportunities affecting our business (Page 31 onwards). This year we continued to use flooding assessments, to implement mitigation measures for assets most at risk. We have developed a work programme to reduce this impact, ensuring our ability to serve our customers during climatic weather scenarios. Our main climate and nature-related opportunities lie in resource efficiency (through demand management) and operational resilience. We strengthened operational resilience by managing our impacts and risks through environmental investment on our land and in our catchments. . This included development of the GUCT scheme, a strategic project included in our WRMP24.

Environmental performance 2024/25

Achieving Net Zero by 2050

Climate change mitigation- We are committed to Net Zero emissions by 2050, in line with the government target. This year we have been developing a realistic and ambitious decarbonisation strategy supported through industry investment cycles. We have been working with Schneider Electric to help set our science base targets and our decarbonisation pathways.

In 2025/26 the Scope 1 and 2 emissions associated with our distribution output volume has decreased to 125 kg of CO_2e per ML of water produced, which reflects our operational carbon intensity. In the year we have:

- Produced renewable energy from solar panels on four our sites and investigated the potential roll out on further sites.
- Progressed with installation of EV charging points to enable transition for our operational teams. However, having 84 vehicles on the roads we are behind against the business plan forecast of 159 for this financial year. We have deployed additional resources to work closely with the teams to accelerate this process.
- Piloted five projects to gain a better understanding of opportunities to reduce embedded carbon in our newbuild assets to support the mitigation of the impact on the environment by reducing carbon emissions from the delivery of capital projects. We have worked with our delivery partners to shape project designs that minimise both embodied carbon in construction materials and the operational emissions associated with long term asset performance. We have focused on reducing the carbon impact of PFAS treatment by trialling lower carbon Granular Activated Carbon (GAC) produced from coconut sources and by testing ion exchange treatment processes.

Increasing operational resilience by adapting to climate change impacts

Climate change adaptation- We began delivery of 'Climate Change Flooding and Power Resilience Project' and developed desktop flood risk assessment framework. This framework enables consistent measurement and comparison of resilience across all assets and regions, supporting evidence-based decision-making and help to assess resilience against a range of hazards, including flooding and power loss, under different operational conditions. This AMP8 programme will help reduce the likelihood of unplanned outages, supply interruptions, and water quality issues during extreme weather events. We included detailed updates as part of TCFD disclosure in the strategic report on page 31.

Delivering positive outcomes for nature

In AMP8 we have an ambitious plan to improve the ecology of our sites to deliver environmental gain. We have made significant progress by developing biodiversity management plans on 14 of our sites (out of 40) and planted over 20,000 native saplings on our land.

We have started an ambitious programme of nature-based solutions in our catchments. These interventions aim to protect water quality and will also support our chalk stream catchments to become more resilient to pressures like drought and the effects of climate change, reducing runoff and improving recharge to the aquifer, whilst supporting natural flood risk management.

We worked in partnership with Wildlife Trusts and other environmental NGOs to help manage our strategic sites for biodiversity such as local nature reserves and sites designated as SSSI where appropriate utilising branding, joint messaging and linking with wider landscape and communities within. We included detailed updates as part of TNFD disclosure in the strategic report on page 31.

Our river restoration programme creates resilient river systems by restoring rivers to a more natural state. We have been working with the Environment Agency, landowners, and other partners to support the Water Framework Directive objectives and completed construction on four and a half projects. The interventions included in channel WINEP works, floodplain connectivity and backwater and scrape creation. We continued with morphological investigations and outputs from these including ecological data were uploaded into our open data platform **Aquarius webportal** to inform our stakeholders and share these insights with the community.

ESG Committee Report continued

A diverse cover crop mix on an arable farm in the Upper River Beane

We continued to protect, conserve and enhance biodiversity on our land and in our supply area . We started the work to update our natural capital accounts with the ambition to expand this to wider parts of our catchments and further improve alignment with our TNFD disclosure. We included 'Locate, Evaluate, Assess, Prepare' (LEAP) analysis and explained the context of our operations in the unique geographical area where we operate. This places us in a better position to report on our nature – related dependencies, impacts, risks and opportunities.

This forms part of our evidence base for leaving the environment in a measurably improved state, and contribute towards being a nature positive organisation. We are on track to deliver our biodiversity target to deliver 36.6 biodiversity units and outperform this number. We launched two schemes in the community to accelerate this delivery – **'Rooting For Wildlife'** and **'INNS Out Scheme'** and support their objectives by offering funding and volunteer time.

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. In 2025/26 we delivered over 3000 ha of cover and companion crops verified for grant payments. We

Pic 1. Groundswell Agricultural Festival July 2025

Investment in catchment management schemes over	Nature based Solutions delivered covering over
£400,000	**3000 ha**

launched and continue to deliver 'Soils Connected' courses progressing well and receiving positive feedback from farmers. For the eighth year in a row we supported Groundswell Agriculture Festival, a two-day- event in our supply area in Hertfordshire, that welcomed over 10,000 visitors, including Defra Secretary of State, to explore regenerative farming, soil health and impact on water quality (Pic1).

We are on track to implement of 35Ml/d abstraction reduction/relocation in the next four years. We secured compulsory purchase orders where capital work to upgrade our works will be required to compensate for loss of supply from groundwater sources. We have completed capital projects to help deliver the sustainability reductions, that included Hunton Bridge and Oughton Head to allow a provision of wholesome water to our customers and meet the demand.

We continue to look for opportunities to reduce our waste streams. In 2025 a new mandatory protocol came into force New Material Classification Protocol (AW2071 / Street Works UK) and since we established further governance to improve the management of excavated waste and comply with the sampling requirements of the protocol.

Social performance 2025/26

The company has been developing constructive and collaborative relationships with its employees, customers and community, instrumental for delivery of our business plan and performance commitments now and in the future. The performance highlights are listed below:

Providing efficient and affordable customer service

We continue to focus on our customers' diverse needs and experiences, supporting vulnerable customers, including those struggling to pay their bills or access essential services. In June 2025 we finalised our **vulnerability strategy** which sets out measures and targets and specific action plans to support our customers. These ambitions formed the basis of our delivery plans for the year. We continued to support customers with social tariffs- Water assistance payments, WaterSure, LIFT and payment plans.

We promoted inclusion and wellbeing by organising volunteering events such as **open water swimming with Access Adventures**. The charity provides adaptive water sports for people with disabilities.

Investing in community and future skills

Our ambition is to develop industry leading Early Careers Strategy to attract best talent and improve local community representation by partnering and recruiting through local institutions. We want to keep improving our gender and ethnic diversity and at the same time increase our workforce resilience to enable successful business plan delivery in AMP8.

ESG Committee Report continued

We made a good progress against our **'diverse voices, one team' strategy**. We have had a particular focus on addressing the impact of family and caring responsibilities on women's careers, supporting women through menopause, and ensuring that our female employees have access to structured mentoring and networking opportunities.

Our median gender pay gap based on hourly pay was 24.8% in April 2025. This gap has decreased by 1.2 percentage points compared to 2024 when it was 26.0%. Our mean gender pay gap based on hourly pay was 16.7% in April 2025. This gap decreased by 1.5 percentage points compared to 2024 when it was 18.2%.

We have a well-established EDI Committee and five employee networks: ONE, Women, Men, ProudAW and Disability & Neurodiversity that helped drive the changes and advise on the ways of implementing actions needed.

In 2025, we achieved Disability Confident Employer (Level 2) status. A key final commitment was to offer interviews to any disabled candidate who meets the criteria for a role – a commitment we implemented in 2025.

Pic.2. Tree Planting sessions with colleagues, as part of the Affinity Days volunteering

Partnerships and public value

We defined the public value positioning that included 'work readiness, skills and access to opportunities' to support our ambition to be a 'good employer'. In 2025, we focused on our early career and outreach activities. This has included ensuring that we are reflecting and reaching the diversity of young people in our local area. We partnered with Business Education Events and provided funds towards realisation of the mentoring programme for 15 local students with direct mentoring support from our people who volunteered their time.

Our Affinity Day volunteering programme supports key ESG objectives -deliver positive outcomes for nature, investing in community and future skills, providing efficient and affordable customer service and promoting water efficiency. Our people committed over 160 days volunteering in the community this year. (Pic 2) Next year we will build on this to increase our impact and deliver the ambitious outcomes this programme sets out.

As part of development of our main strategic resource option, Grand Union Canal Transfer, we have identified potential opportunities at many locations along the route to bring further long-term benefits to the environment and local communities, as well as for canal customers and users. The social value strategy has been developed by the three scheme partners to deliver additional public value (see: **Approach to social Value**).

We continued our strategic work with **Kidney Care UK** and have renewed our partnership for the second year. We visited a renal unit in Dunstable together and had face-to-face conversations with patients to advise of support with priority services register and affordability help. We also added a new referral partner to our water assistance payments partners – Hope4U.

Charitable donations- We continued our work with Hertfordshire Community Foundation to help allocate grant money in support of local social need. Our most recent donation has supported a charity that supports people in moments of crisis - **Decorum Community Trust**.

Governance performance 2024/25

Promoting and maintaining the highest standards of ethics and conduct

This year we continued our work to maintain and enhance our existing internal processes around data governance and training. We continued the face-to-face training on the Code of Ethics as we strive to embed the core messages in the business for new joiners and new managers as part of their inductions. We updated our Legal Obligations and Compliance Register in line with our annual review as part of evidence to the Board and business assurance that key legal obligations are being met. To help embed ESG principles across our supply chain the Supplier Code of Ethics is now a requirement for our main suppliers to adopt and a prerequisite in the tender process and part of legally binding agreements.

ESG Performance and Data Assurance

This was our third year of voluntary assessment against the EU Taxonomy criteria, and for the first time **assured externally by DNV Limited**, with focus primarily on our core water supply activities and contribution to two environmental objectives- 'climate mitigation' and 'sustainable use and protection of water and marine resources'. The alignment of our economic activities to EU Taxonomy criteria increased year on year. As we move forward, we will continue to refine our assessment further to improve the granularity of our activities and further examine the criteria for our eligible activities. It has helped our investors evaluate our green credentials and supported our green finance strategy. This also differentiated us as sustainable in the sector. It helped us with the recent debt raises and it will help accelerate our investment in resilience and adaptation.

Approval

On behalf of the ESG Committee

Chris Newsome OBE

Chair of the ESG Committee

30 June 2026

Audit, Risk and Assurance Committee Report

Justin Read
Chair of the Audit, Risk and Assurance Committee

Committee members

Chris Newsome

Mike Osborne

Member	Member since[1]	Scheduled Meetings Attended
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 Audit, Risk and Assurance Committee Report, which outlines the Committee's responsibilities and provides stakeholders with comprehensive insight into its activities during the year.

The Audit, Risk and Assurance Committee assists the Board in fulfilling its oversight duties relating to the integrity of the company's financial statements and the effectiveness of the internal control and risk management systems. The Committee reports to the Board on the execution of its responsibilities as detailed in its Terms of Reference (available at **affinitywater.co.uk/governance**).

As Committee Chair, I maintain ongoing engagement with Committee members, the CFO, the Company Secretary, and the Head of Internal Audit and Risk, ensuring robust governance and communication. In addition, I oversee our relationship with PricewaterhouseCoopers LLP ('PwC'), our external Auditor, monitoring its objectivity and managing the assurance of regulatory submissions to Ofwat.

While we cannot offer absolute assurance regarding the effectiveness of the company's risk management and internal controls, areas for improvement identified throughout the year have been or are being addressed by management, under the Committee's supervision. We are, however, satisfied that the company maintains an appropriate culture of control and compliance, providing reasonable assurance that the financial statements are free from material misstatement.

The Committee is also confident that the 2025/26 Annual Report and Financial Statements as a whole offer a fair, balanced, and understandable view of the company's position, as well as the necessary information for stakeholders to evaluate performance, business model, and strategy.

Serving as a cornerstone of the organisation's governance, the Committee has continued this year to ensure that rigorous processes regarding financial reporting, internal controls, and risk management are upheld. This year we have had a particular interest in the preparations to implement the new Provision 29 of the Code and mapping the key finance controls and processes to the company's principal risks as well as overseeing the assurance plan preparations. More details of the Committee's activities across the past year can be found on the next page.

Audit, Risk and Assurance Committee Report continued

Responsibilities of the Committee

The Committee reviews issues highlighted by the external Auditor in their report. After each Audit, Risk and Assurance Committee meeting, the Committee Chair reports to the Board on how responsibilities have been fulfilled. During these updates, any areas requiring action or improvement are identified, and recommendations are provided for next steps. The Committee also has a role to help safeguard shareholder interests concerning financial reporting and internal controls. In support of this, the Committee evaluates the clarity of its reporting and prepares an additional document outlining how it fulfils its duties. The Committee Chair attends the AGM to be able to respond to any questions about the section of the Annual Report and Financial Statements covering the Committee's activities and areas of responsibility.

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 2025/26 financial statements were consistent with those identified by the external Auditor in its report on pages 142 to 149. 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 reporting year, the Committee met four times. Within the annual programme of meetings, the Committee convened with internal and external Auditors without management being present.

The table below presents a summary of business considered during 2025/26.

External Auditors	• Recommended to the Board the reappointment of PwC as external Auditors • Reviewed and agreed the scope of the audit work to be undertaken by the external Auditor, including both the interim review (September 2025 half-year report) and the year-end audit (March 2026 Financial Statements) • Agreed the fees to be paid to PwC for its review of the September 2025 half-year report and its audit of the March 2026 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 for FY26/27 • 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 • Reviewed the company's Internal Audit Charter which continued to be in line with Global Internal Audit Standards
Financial and other reporting	• Reviewed the September 2025 half-year financial results and the March 2026 Annual Report and Financial Statements • Reviewed the March 2026 regulatory Annual Performance Report to ensure that the information met Ofwat's AMP8 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 with only changes on guidance to enhance clarity and consistency (no change to underlying policy). • Considered impact of the Code and in particular, Provision 29 and reviewed the company's plan to enhance the risk management and internal control framework ahead of the Code's implementation timeline.

Audit, Risk and Assurance Committee Report continued

General	• Reviewed the Committee's 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
	• Reviewed compliance certificates required under the company's debt facilities
	• Received updates across the year on:
	  • 2025/26 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 2025/26;
	  • 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 relevant investigations;
	  • The company's data protection arrangements and any associated activities and updates;
	  • The status of the company's information security by reference to the ISO27001 standard;
	  • Compliance with Security and Emergency Measures Direction 1998;
	  • The requirements of Task Force on Climate-related Financial Disclosures ('TCFD') and EU taxonomy alignment assurance;
	  • The Environmental, Social and Governance ('ESG') reporting disclosure; and
	  • Security control environment and cyber security policy.
	• Approved the company's non-audit fee policy

Fair, balanced, and understandable

The Committee reviewed the 2025/26 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 receives regular updates on whistleblowing incidents reported throughout the year. All reports are handled with strict confidentiality and in line with the company's Whistleblowing Policy. When necessary, policy protocol requires particular cases are referred to the Chair of the Committee for independent review. A broader overview of whistleblowing activities is included in the Ethics and Compliance report at assigned Committee meetings. Over the past year, the Ethics and Compliance team has led investigations into raised issues, provided recommendations, and supported operational and policy improvements based on findings.

Risk management and internal control

The Audit, Risk and Assurance Committee advises the Board on the company's internal control systems. In accordance with the Code, the Board takes responsibility 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.

Audit, Risk and Assurance Committee Report continued

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 Audit, Risk and Assurance Committee , together with other internal control and assurance resources, which monitors 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 reviews, 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 report. Refer to page 49 of the Strategic report for further information.

We follow the principles of the 'three lines of defence' model, as promoted by the IIA 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.

This year the Committee has considered Provision 29 of the Code which requires the Board to actively monitor as well as review the effectiveness of these control systems. The new requirement is applicable from financial year 2026/27, and work is progressing to enhance our risk management and internal control framework to allow the Board, in future annual reports, to provide:

- a description of how the Board has monitored and reviewed the effectiveness of the framework;

- a declaration of effectiveness of the material controls as at the balance sheet date; and

- a description of any material controls which have not operated effectively as at the balance sheet data, the action taken, or proposed, to improve them and any action taken to address previously reported issues.

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 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.

Audit, Risk and Assurance Committee Report continued

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 77.

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. The Committee considered PwC's updated risk assessment of the measured income accrual to 'normal', and assessed whether this appropriately reflected the historical accuracy of management's estimate and supported the methodology applied.
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. During the year, Affinity Water extended the bad debt provisioning horizon from four years to six years to reflect newly available customer-level recovery data. The Committee noted that this change does not alter the simplified approach, methodology or policy, and concluded that the approach taken remains appropriate. International Financial Reporting Standard ("IFRS") 9: 'Financial Instruments' ("IFRS 9").
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 and concluded that the assumptions adopted were appropriate.
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. Based on this review, the Committee is satisfied that the approach taken is robust and that the key risks have been appropriately identified and assessed to support the company's ongoing viability.
Revaluation of property, plant and equipment	The Committee reviewed the revaluation of property, plant and equipment, recognising this as an area of significant judgement due to the scale of the uplifts recognised during the year, comprising a £159 million uplift recognised at 30 September 2025 and a further £55 million recognised following the March 2026 valuation and reflecting management's selection of a point estimate within the updated valuation range at the reporting date. The Committee also noted that further refinements to the company's policy for selecting an appropriate point within the valuation range, including consideration of other relevant factors, will continue to be developed as part of the ongoing valuation process. The committee noted the sensitivity of the valuation to long-term assumptions. In its review, the Committee considered the valuation methodology applied by management and their external expert, together with the key inputs used, including long-term cash flow forecasts, inflation assumptions, discount rates and terminal value assumptions. Based on this review, the Committee was satisfied that the revaluation approach adopted was appropriate and that the resulting financial statement impacts had been recognised in accordance with the applicable accounting standards.
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 approval of 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. In particular, the Committee assessed the company's refinancing plans, including the timing and feasibility of securing new funding when existing debt matures. The potential impact of credit rating downgrades on borrowing costs and access to capital markets was also considered, alongside mitigating actions available to the company.

Audit, Risk and Assurance Committee Report continued

We challenged management on the following areas:

Area of challenge	Outcome of this challenge
Key risks were reviewed in detail relating to (i) the company's approach to per- and polyfluoroalkyl substances (PFAS) and (ii) risk identification and management following risk transformation process in customer experience function and were 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 2025/26 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 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 narrative reporting requirements for 2025/26 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.
Provision 29 of the UK Corporate Governance Code (2024)	The Committee satisfied itself that the company is on track to meet implementation timing of this requirement, with materiality of controls being triaged using a structured framework and work plan approach.

We observed that PwC challenged management on the following areas described below:

Area of challenge	Outcome of this challenge
• **Fraud in revenue recognition** • **Recoverability of trade receivables** • **Management override of controls** • **Assessment of cost capitalisation** • **Assessment of pension assumptions** • **Revaluation of property, plant and equipment**	No material issues were noted during the interim review or year-end audit. See the audit opinion on page 142 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.

Audit, Risk and Assurance Committee Report continued

External audit

PwC was appointed as external Auditor in 2013/14 following a competitive tendering exercise at that time. Following a successful retendering process during 2023/24, PwC were reappointed as external Auditor.

To fulfil the Audit, Risk and Assurance Committee's responsibility, regarding the independence and objectivity of PwC, the Committee considered:

Having completed five years in the role of senior statutory audit partner, Simon Bailey will rotate off the audit, with the audit for the year ended 31 March 2026 being his final one. The Committee oversaw the selection of Chris Cook as engagement partner for the 31 March 2027 year end audit.

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. The Auditors remuneration was £757,000 in the year to 31 March 2026 (2025: £814,000) 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 164] for a breakdown of fees in the current and prior year. We also incurred expenditure of £84,300 with PwC (2025: £85,000) for other non-audit services, including an interim review (performed in accordance with ISRE (UK) 2410)) and assurance procedures over the sufficiency of financial resources statements, cost assessment tables, financial flows and Anglian Water and Thames Water regulatory returns.

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 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 2026. 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.

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 2025/26 amongst others, planned audits were carried out in the following particularly important areas:

- Data Protection
- Asset Resilience/Maintenance/Health
- Learning and Development
- Estates and Facilities
- Treasury and Cash Management
- Unplanned Outages

Audit, Risk and Assurance Committee Report continued

Plans and objectives for 2026/27

During 2026/27, 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 principal risks;
- Review the action plans and timetable for the 2026/27 statutory and regulatory financial statements, including going concern, viability, narrative disclosures and regulatory reporting requirements;
- Oversee the implementation plan and reporting process of our risk management and internal control framework to ensure appropriate monitoring and review in accordance with Provision 29;
- Monitor progress made against the 2026/27 internal audit plan;
- Ensure the Internal Audit function spends as much time as necessary on emerging principal and systemic risk areas;
- Ensure ESG risks continue to be incorporated into the audit plan.
- Ensure transparent reporting on sustainability initiatives and climate-related disclosures.
- Monitor ethical supply chain and corporate social responsibility compliance.

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 Committee continues to consider management's recommendations in relation to risk management and internal control as set out in provision 29 in the Code published by the FRC.

The company's audit has not been reviewed by the FRC's Audit Quality Review team during 2025/26.

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.

Approval

On behalf of the Audit, Risk and Assurance Committee.

Justin Read

Chair of the Audit, Risk and Assurance Committee

30 June 2026

Nomination Committee Report

Mike Brown
CBE MVO
Company Chair

Committee members

Roxana Tataru

Justin Read

Mike Osborne

Chris Newsome

Adam Waddington

Shelley Malton

Member	Member since[1]	Scheduled Meetings Attended
Roxana Tataru Committee member		2 / 3
Justin Read Committee member		3 / 3
Mike Osborne Committee member		3 / 3
Chris Newsome Committee member		3 / 3
Adam Waddington Committee member		3 / 3
Shelley Malton Committee member		3 / 3

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.

Special committee meetings were held in addition to the scheduled meetings to conduct the CEO recruitment search.

[1] if after 1 April 2025

Key
Meetings attended / Possible meetings

Dear Stakeholder

As Committee Chair, I am pleased to present the Nomination Committee report which summarises the matters considered and actions taken over the past twelve months.

During the year, the Nomination Committee's principal focus was the successful recruitment and appointment of a new Chief Executive Officer, recognising the critical importance of the role to the Company's leadership, performance and long term strategy. The Committee oversaw a comprehensive and robust recruitment process, supported by Korn Ferry, the executive search adviser, along with effective succession planning to ensure a smooth transition in leadership. We are extremely pleased to welcome Mark Garth to the role and on behalf of the Committee, I would like to reiterate our sincere thanks to Keith for his significant contribution during his tenure as CEO.

The Committee has also dedicated time to strengthening board governance by overseeing the implementation of a new process framework to assess the honesty, integrity, and financial soundness of our Board directors, in line with Ofwat's Fitness and Propriety Rule 2025. These updated systems include mandatory, documented checks for all new recruitments from 1 April 2026 and processes for annual reassessments of our existing Board members. We set out the compliance arrangements including a description of our processes, systems and governance on page 112 along with a summary of our most recent assessments.

Mindful of the change to executive leadership this year and in preparation for compliance with Ofwat's Fitness and Propriety Rule, the Committee supported the development of a comprehensive training programme to encourage development of the Board as a whole and each director individually. This programme has been customised to reflect existing levels of experience and advance the Board's collective capabilities. Further detail set out on page 113. Our external Board evaluation, carried out earlier this year by Board Intelligence and further detailed on page 91, helped inform areas of focus for the training programme.

The Committee also continued its oversight of succession planning for both Board and senior management roles, ensuring the Company maintains the appropriate balance of skills, experience and capability to support its strategic objectives.

Equality, diversity and inclusion remained another key area of focus. The Committee reviewed progress against the Company's EDI Strategy and continues to monitor performance and drive development in this area. Further detail on EDI activity and progress is provided on page 113.

I would like to thank my fellow Committee members for their continued hard work and constructive challenge, and I look forward to working closely together in the year ahead.

Mike Brown
Nomination Committee Chair

30 June 2026

Nomination Committee Report continued

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 Independent 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 Independent 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.

Appointments to the Board

All Board appointments remain subject to a formal, rigorous, and transparent procedure and the Board and Nomination Committee maintains 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 those with protected characteristics within the meaning of the Equalities Act 2010 against discrimination.

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 90, 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 as well as experience of audit.

The skills matrix is routinely reviewed by the Committee and closely assessed to ensure a suitable breadth of skills and experience when considering any directorship changes.

Nomination Committee Report continued

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 and customer skills • Reviewed the Board's membership and composition as well as each of the Committees, in the short, medium, and long term and evaluated its compliance with the Code and BLTG Principles • Assessed Board member external appointment commitments to ensure the members of the Board had adequate time available for their roles • Supported an external Board Effectiveness Review that was presented to the Board in March 2026 and agreed an action plan where appropriate • Approved new Fitness and Propriety Policy and oversaw implementation of associated process framework • Chair led reviews of each of the independent Non-Executive Directors and the SID conducted a review of Chair performance with input from all Board members.
Recommending appointments to the Board	• Led the process for the successful appointment of the CEO 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 and had no conflict • Approved the appointment of the Company Secretary
Overseeing Board and company diversity	• Reviewed metrics of performance on EDI presented to the Committee by the Head of Culture and EDI and supported the EDI Committee in their strategy to: i. take positive action to address 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. • Approved the collection of ethnicity data and the reporting of the ethnic diversity of Board members in the Annual Report • Approved the submission of the wider anonymised dataset, combined with ELT data, to the EU Skills annual Inclusion Measurement Framework
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 Company Secretary and senior management

Board succession – Executive

The Committee led the search for a new CEO, to replace Keith Haslett with the support of executive search consultants Korn Ferry. Following a robust interview and introductory programme, Mark Garth joined us as CEO and executive director in June 2026.

Nomination Committee Report continued

Fitness and Propriety Rule 2025 (the 'F&P Rule')

This new rule on fitness and propriety follows the powers granted to Ofwat under the Water (Special Measures) Act 2025 to strengthen water company leadership and culture, and rebuild public trust in the sector. Whilst directors are already bound by various legal requirements including the Companies Act 2006, Ofwat's F&P Rule introduced a sector-specific compliance obligation and a regulatory overlay with enforceable standards.

Effective from 1 April 2026, Affinity Water has complied with the new rule and ensured that we have:

- Committed to evaluate candidates for any new Board appointments using the fit and proper person test
- Established procedures to assess the fitness and propriety of existing Board members in preparation for 1 April 2027 deadline
- Prepared to report assessment processes and results to Ofwat, including annual compliance and reassessment if circumstances change.

In preparation of the forthcoming statutory requirements, the Committee oversaw the following actions during the reporting year:

- Prepared and reviewed new Fitness & Propriety Policy which was formally approved in February
- Established processes for new appointments and existing directors involving consultation with our HR, Company Secretariat, Legal and Recruitment functions
- Commissioned a Board director-specific search format to be provided by Zinc Work Limited
- Amended existing executive service contracts and iNED letters of appointment to incorporate criteria and set out new termination rights under the F&P Rule
- Developed bespoke training programme for Board directors on relevant skills and knowledge development
- Obtained external legal counsel review and approval of our prepared material
- Established practice of declaration from each director at the commencement of each Board/committee meeting to identify any changes that may impact their F&P status. This declaration will be recorded in the minutes
- Prepared for spot-check assessments to be carried out on an ad-hoc basis so that compliance is monitored throughout the year not only at annual re-assessment.

Under the F&P Rule we are required to carry out F&P assessment on existing directors in advance of 1 April 2027 (para 19 of Guidance) however, the Committee requested the first assessments of each existing director including Mark Garth, be carried out in mid-2026. Our process is set out below:

Process for carrying out F&P assessment

*likely to be conducted simultaneously

- Zinc carry out director background checks in required areas including employment history, criminal records, insolvency, bankruptcy*
- Review of regulatory websites for adverse findings to be carried out by in-house legal team*
- Review of knowledge, skills and training to be carried out by HR and cosec teams*
- All analysis and results uploaded to our F&P Checklist Reporting Summary Document ("Reporting Document")
- Self-declaration form to be completed by director undergoing assessment

↓

Internal meeting between Director of People and Culture and General Counsel/Company Secretary to review results of all above and completion of the Reporting Document

↓

Reporting Document to be presented to Chair/Nomination Committee and Ofwat to confirm the assessment decision and conclusions against all relevant factors

The formal annual assessment of existing directors is scheduled for early 2027 in compliance with the 1 April 2027 incumbent director deadline and will be reported in the FY26/27 annual report.

Nomination Committee Report continued

Training and continuing professional development

Training is essential for the Board to stay updated on significant business and industry developments. Board members regularly receive information about legislative, regulatory, and reporting issues, which helps broaden their knowledge of the water sector and its regulatory framework.

Non-Executive Directors are encouraged to attend a variety of industry events and understand the importance of keeping themselves well-informed to strengthen their grasp of the company. This year's Board training programme has undergone review and development to align with the new F&P Rule requirements and support director development both as individuals and as a cohort. The Nomination Committee oversees both the Board's training programme and members' ongoing professional development.

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 fostering equality, diversity and inclusion across our organisation. As a company with a strong public purpose – providing an essential service and safeguarding the environment for our diverse communities now and in the future – we recognise our responsibility to treat people fairly, and with dignity and respect. A diverse workforce, supported by an inclusive culture, enables us to recruit talent that reflects our communities, build trust with our customers, and drive innovation and high performance.

Our EDI Commitment outlines the organisation's expectations of all employees, Board members and Committee members, alongside the support available to them. This commitment is reviewed annually by the Board to ensure accountability and continued progress.

Our Vision

Our vision, as set out in the EDI Commitment, is for EDI to be fully embedded into our business and to guide how we lead, work together and make decisions.

We aim to ensure that:

- There are no persistent gaps or biases in opportunities or outcomes (equality).
- Our workforce reflects the diversity of the communities we serve (diversity).
- All employees feel valued, respected and engaged at work (inclusion and dignity at work).

EDI Committee and Employee Networks

Our EDI Committee, chaired by the Director of People and Culture, provides strategic oversight of our EDI agenda. Membership includes directors and senior leaders who act as sponsors for our employee networks, a Board representative, the Head of Culture and EDI, trade union representation and co-chairs of our employee networks.

The Committee ensures we uphold our EDI Commitment and maintain momentum against our strategy.

We have five active employee networks that promote awareness, provide peer support and help shape more inclusive workplace policies and practices.

EDI Strategy

Throughout the year, we continued to implement our 'Diverse Voices, One Team' EDI Strategy, which is publicly available on our website. The strategy sets out our priorities and includes an action plan through to 2025/26, with defined expectations for improvement.

Our five strategic priority themes are:

- Narrowing the gender pay gap
- Becoming a Disability Confident and neuroinclusive employer
- Embedding EDI across our talent acquisition and development processes
- Ensuring dignity at work and fostering an inclusive culture
- Improving our diversity data collection and analysis

Progress and Implementation

In March 2026, we published our annual gender and ethnicity pay gap report for 2025, which includes detailed progress against our strategy. A summary of our gender and ethnicity pay gap reporting can be found on page 132 of the Remuneration Committee Report and our workforce representation is set out below:

Workforce diversity

Group	Female	Male
All employees	38%	62%
Managers	31%	69%
ELT and SLT	38%	62%
Board	22%	78%

Ethnicity	Employees	Managers	ELT and SLT	Board
Asian/Asian British	6.8%	5.9%	–	–
Black/Black British	4.2%	0.6%	–	–
Mixed/Multiple heritage	1.8%	0.6%	–	–
Other ethnic group	1.0%	0.6%	1.7%	–
White/White British	58.2%	82.2%	77.6%	89%
Unknown/no response	28.0%	10.1%	20.7%	11%

Approval

On behalf of the Nomination Committee

Mike Brown
Chair of the Nomination Committee
30 June 2026

Remuneration Report

Shelley Malton
Remuneration Committee Chair

Committee members

Mike Brown

Justin Read

Roxana Tataru

Member	Independence	Member since[1]	Scheduled Meetings Attended
Shelley Malton Chair	Independent		4 4
Mike Brown Committee member	Independent		4 4
Justin Read Committee member	Independent		4 4
Roxana Tataru Committee member	Shareholder appointed		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.

Special committee meetings were held in addition to the scheduled meetings to conduct the CEO recruitment search.

1 if after 1 April 2025

Key
Meetings attended
Possible meetings

Dear Stakeholder,

I am pleased to present our 2025/26 Remuneration Report, which sets out the remuneration paid to the directors of the company for the year ended 31 March 2026. This report explains how our remuneration framework supports delivery of our strategy, aligns executive outcomes with customer, environmental, operational, people and financial performance, and reflects the principles of the UK Corporate Governance Code 2024 and Ofwat's expectations for performance-related executive pay.

The Committee once again welcomes the stronger emphasis on executive accountability and remuneration introduced by the Water (Special Measures) Act 2025 and we have designed our remuneration policy to ensure that it is appropriately aligned to operational performance, customer outcomes, environmental stewardship and long-term sustainable performance. Variable pay is weighted to customer and environmental outcomes, with clear provisions for discretion, malus and clawback, including requirements arising from the Water (Special Measures) Act 2025 and the "Performance related executive pay prohibition rule" published by Ofwat in June 2025 (the 'PRP Rule').

During the year, the Committee kept remuneration structures under review to ensure that they remain fair, competitive and aligned to performance and stakeholder expectations, as well as being aligned with previous benchmarking reviews undertaken with external remuneration consultants.

As we transitioned into the Asset Management Plan ('AMP') 8 period, the Committee comprehensively reviewed the success of the AMP7 incentive schemes in achieving their aims and ensured that they will continue to be stretching, transparent and strongly linked to customer and environmental outcomes.

The AMP8 LTIP structure prioritises long-term objectives vital to customers and environmental stewardship, including efficient investment delivery and improved Outcome Delivery Incentives (demonstrated through Return on Regulated Equity, 'RoRE'). Targets are closely linked to commitments around Biodiversity, Asset Health, and Smart Metering, supporting PCC and leakage reduction goals.

For 2025/26, annual bonus outcomes reflect performance against the year's financial and non-financial measures, together with individual objectives, as detailed on page 119.

Remuneration Report continued

Main responsibilities and annual activities

Determining policy and setting awards	• The Committee has primary responsibility for determining the policy for executive director remuneration and setting remuneration for the Chair, executive directors, company secretary, and the senior executive team, including pension rights and any compensation payments in accordance with the company's instrument of appointment, Ofwat's BLTG principles, provisions of the Code and any other applicable rules, as appropriate. • The Committee designs incentive schemes that promote long-term incentivisation of executive directors to support alignment with long-term customer, shareholder, and wider stakeholder interests. The Committee has a responsibility to design packages that are structured to ensure exposure to long-term value to support alignment with stakeholders and encourage executive directors to focus on the impact of their decisions over the long-term. • The Committee ensures that all remuneration policies and strategies align with the company's purpose and values and are aligned to the successful delivery of its long-term strategy.
Determining awards and discretion	• The Committee exercises judgement when determining remuneration awards. It remains mindful of the possible monetary outcomes and of external perceptions arising from its decisions and reports in a transparent and accountable way.
Benchmarking including appointment of remuneration consultants	• The Committee monitors the company's remuneration practices against the market to ensure competitiveness and alignment with market standards. It 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. It is the responsibility of the Committee to appoint a remuneration consultant where such appointment is deemed necessary, and any such appointment is to be identified in our Annual Report and Financial Statements.
Pensions	• The Committee sets the policy for pension arrangements, including the scope and nature of pension commitments for executive directors and prescribes that such commitments, or payments in lieu of notice, should be aligned with those available to the workforce.
Transparent reporting and governance	• The Committee Chair has a duty to report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. • The Committee arranges for annual reviews of its own performance, its constitution and terms of reference. • The Committee ensures that the company maintains contact as required with its principal shareholders about remuneration in accordance with the principles set out in the company's governance document 'Engaging with our Shareholders'.

Remuneration Report continued

Our approach to remuneration in 2025/26

Customers, regulators and wider stakeholders expect executive pay to be clearly linked to the standards of service and outcomes delivered by the company. In 2025/26, the Committee continued to ensure that variable remuneration is aligned to customer and environmental priorities, supports delivery of our AMP8 commitments and is consistent with Ofwat guidance and the UK Corporate Governance Code 2024.

The 2025/26 annual bonus scorecard is structured to deliver on financial, customer and environment measures, including focus on people engagement and the health, safety and wellbeing of our staff, as well as giving a clear link to our AMP8 plan. Measures were cascaded through the organisation to reinforce a consistent focus on delivery. In determining outcomes, the Committee considered delivery against corporate targets and individual objectives, including behaviours aligned to our company values, and applied judgement where appropriate.

Our LTIP arrangements are designed to support long-term delivery across the course of AMP8 and to maintain a substantial link to customer and environmental outcomes. In determining outcomes, the Committee considered delivery against corporate targets and applied judgement where appropriate.

Implementation of the director remuneration policy during 2025/26

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 2025/26, 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. In arriving at a total package, the Committee considers 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.

During 2025/26, the Committee applied the approved remuneration policy and reviewed outcomes to ensure they appropriately reflected performance, risk and stakeholder expectations.

The Committee kept in mind the wider sector situation and the importance of holding executives accountable, including the rules relating to performance related pay introduced by the Water (Special Measures) Act 2025.

The Committee considered leadership stability and succession planning as part of its wider approach to remuneration governance.

The Committee is satisfied that remuneration outcomes for 2025/26 were determined in accordance with the approved policy and were aligned to performance, including the application of discretion and any regulatory restrictions where relevant.

The Committee continually reviews the remuneration structure to ensure it remains fit for purpose amid evolving sector requirements. Remuneration consultants will be engaged during 2026 to undertake a formal benchmarking and validation of the company's remuneration structure.

Setting stretching targets

Executive remuneration remains a key focus within the water sector. The Committee recognises scrutiny in its decisions and is committed to establishing equitable, substantiated, and outcome-driven remuneration that supports business, customer, and environmental benefits.

Targets are reviewed annually, informed by stakeholder feedback and aligned with our strategic vision and regulatory guidance. For 2025/26, threshold, target, and stretch criteria will apply to the annual bonus measures: no award below threshold, 75% at target, 50% at threshold and full award at stretch. Calibration is based on best-ever results or ambitious standards from Ofwat's final determination.

LTIP measures differ from annual bonus metrics; they monitor sustained performance and service quality for customers and the environment. These predictive, objective metrics are tightly linked to delivering AMP8 plan goals.

Executive director changes

Keith Haslett stepped down from his role as CEO on 31 March 2026. Mark Garth was appointed as Keith's replacement on 9 January 2026 and had an effective start date of 15 June. The terms of Mark's appointment are aligned with our remuneration policy.

Details of bonus and LTIP members are included on page 119.

Shelley Malton
Chair of the Remuneration Committee

30 June 2026

Remuneration Report continued

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 Variable pay linked to the achievement of stretching targets

- Drive 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

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, financial and operational targets applied to annual bonus awards and LTIP vesting.
Alignment to culture	Targets apply to the annual bonus 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), drives the right behaviours expected within Affinity Water. The remuneration arrangements of the wider workforce reinforce employee engagement.

Remuneration Report continued

Key

Customers | Suppliers | Regulators | Environment bodies | Shareholders | Communities | Employees

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
C-MeX: score	Ensures we focus on providing a great service that customers value	Customers, Shareholders, Regulators
D-MeX: score	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 person per day, 'l/p/d')	Ensures we can make sure customers have enough water, while leaving more water in the environment	Customers, Communities, Regulators
Business demand: volume of water (M/ld)	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
Unplanned outage (%)	Ensures we can minimise disruption for customers and the community	Customers, Communities, Regulators
Serious pollution incidents: category 1 or 2 incidents	Ensures we are demonstrating our commitment to customers and the environment	Customers, Communities, Regulators, Environment bodies
Discharge from water treatment works: percentage compliance	Ensures we are demonstrating our commitment to customers and the environment	Customers, Communities, Regulators, Environment bodies
Safety (accident frequency rate)	Ensures we can minimise disruption for our people, customers and the community	Employees, Regulators, Customers, Communities
People engagement score	Ensures our people can work to deliver our customer outcomes effectively	Employees, Customers, Communities
Long-term Incentive Plan ('LTIP')		
Financial performance	Ensures we achieve long-term stakeholder value based on company performance	Customers, Employees, Shareholders, Communities, Regulators
Customer transformation	Ensures we provide a great service that customers value	Customers, Shareholders, Regulators
Environmental improvement	Ensures we are demonstrating our commitment to customers and the environment	Customers, Communities, Regulators, Environment bodies
Water quality and resilience	Ensures customers have high-quality water they can trust	Customers, Communities, Regulators
Environmental performance	Ensures we are demonstrating our commitment to customers and the environment	Customers, Communities, Regulators, Environment bodies

Remuneration Report continued

Aligning pay with performance

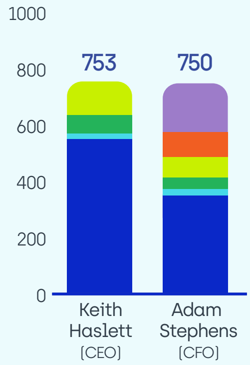
Key performance indicators (for the bonus and LTIP measures) included below for the year to 31 March 2026:

KPIs	Result
Bonus metrics	
Base operating plus base capital costs	£365.0m
C-MeX	60.1
D-MeX	83.5
Leakage	149.8 Ml/d
Water Quality: Customer contacts	0.72
Water Quality: CRI score	3.13
Customer consumption	154.5 l/p/d
Business demand	162.9 Ml/d
Interruptions to supply	4 minutes and 35 seconds
Unplanned outage	1.0%
Serious pollution incidents	0
Discharge compliance	100%
Accident frequency rate	0.13
People engagement score	8.2
LTIP metrics	
Financial performance (based on RoRE)	-1.48%
Retail allowance	£31.7m
Smart meter installations	124,000
Environmental improvement programme	88
Water quality and resilience	Various
Biodiversity	14
Operational GHG emissions	73,158 tonnes

Key
- Target not met
- Threshold met
- Target met
- Stretch met

Single total figure of remuneration for executive directors for year ended 31 March 2026 (£000)

Key
- Base salary
- Taxable benefits
- Pension-related benefits
- Annual Bonus
- Long-term incentive plan
- Other[1]

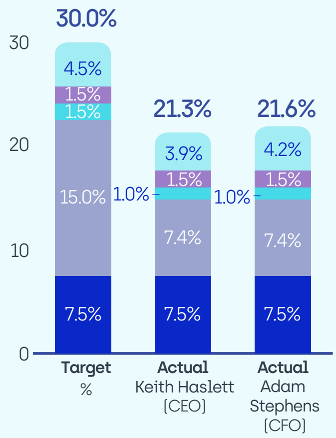


1 Other remuneration for Adam Stephens is detailed on page 128.

2025/26 Annual bonus outcome

These charts show the results of the performance against targets for the annual bonus, based on a maximum potential of 30% of base salary for both the CEO and CFO. Further information about the annual bonus is shown on page 122.

Key
- Financial
- Customer and Environment
- Safety
- People
- Personal performance

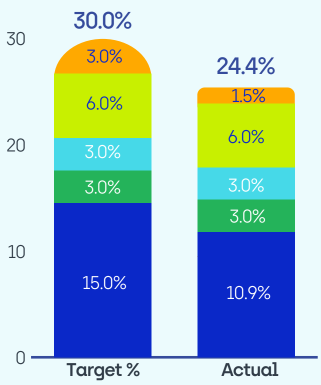


Long-term incentive plan ('LTIP') outcomes

The charts below show the results of the performance against targets for LTIP. Further information about the LTIP is shown on page 123.

2025/26 LTIP scheme outcome

- Target and Actual amounts are calculated on an initial award of base salary of 30.0% for both the CEO and CFO.
- The 2025/26 LTIP scheme vested on 31 March 2026.
- No award was granted to Keith Haslett due to his resignation in the year.



Key
- Financial performance (based on RoRE)
- Customer transformation programme
- Environmental improvement programme
- Water quality and resilience
- Environmental performance

Remuneration Report continued

Remuneration policy report

Introduction

We have prepared this report having regard to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'). While the Regulations are not directly applicable to the company, we report against them to support transparency. The report also describes how we have applied the principles and provisions on remuneration in the UK Corporate Governance Code 2024 and addresses relevant regulatory expectations.

A single available vote was cast in favour of the resolution to approve the remuneration policy report at our 2025 AGM, 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 on certain parts of a quoted company's directors' remuneration report. We have asked PwC to report on this basis to support transparency. The auditable part of this report is identified as 'audited'; other information 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.

Membership of the Committee and the number of meetings held during the year are shown on page 114. Keith Haslett, CEO, Adam Stephens, CFO, and Emma Davies, 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

The Chair receives a fixed annual fee for their services as Chair of the company, reflecting the time commitment and responsibilities of the role.

The other non-executive directors in office at 31 March 2026 fell into two groups, as shown in the table below.

Group A	Group B
Shelley Malton	Mike Osborne
Chris Newsome	Roxana Tataru
Justin Read	Adam Waddington

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. No changes to the fees were made in the year.

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.

Annual bonuses and long-term incentives are awarded to executives 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 2025/26 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 executive director 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, as well as ensuring that pay reflects current benchmarking data and 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.

Remuneration Report continued

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 has established targets for each year of AMP8. Payments relating to vested LTIP schemes are made over a three year period.

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 pages. The achievement of performance against these targets provided the basis for determining the value of annual bonus and LTIP awards.

We continue 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 AMP8 commitments. The safety and people engagement targets are set 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 Strategic Direction Statement establishes our customer-driven goals, reflecting the views of our customers and stakeholders. They can be summarised as follows, with more detail included in our Strategic Report:

- Environment – leave the environment in a sustainable and measurably improved state;
- Customers – deliver what our customers need, ensuring affordability for all;
- Resilience – be prepared for change, and resilient to shocks and stresses; and
- Communities – work with our communities to create value for the local economy and society.

The 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.

The key changes made in 2025/26 were included in the 2024/25 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 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 customer transformation of our business that delivers for both customers and stakeholders.

Remuneration Report continued

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	2026/27 updates
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 performance and experience in the role. Changes to the policy were approved for AMP8, segmenting the remuneration package between fixed, retention and non-contractual performance related pay elements.	N/A	N/A	No changes have been made to the policy for 2026/27 up to the date of approval of the Annual Report and Financial Statements.
Other taxable benefits				
To provide market competitive benefits.	Private health care insurance and life assurance cover are provided, together with a fully expensed company car or car allowance. Changes to this benefit were approved for AMP8 following a benchmark of overall remuneration packages.	N/A	N/A	No changes have been made to the policy for 2026/27 up to the date of approval of the Annual Report and Financial Statements.
Performance related pay – 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. **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 that are aligned to the company's commitments for AMP8, plus individual targets. 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. Additionally, further malus and clawback requirements shall apply in accordance with the Water (Special Measures) Act 2025 and the PRP Rule which will result in a non-entitlement to the relevant performance related payment and/or clawback of any relevant performance related pay paid to an executive over a three-year period.	Up to 30% of base salary for the CEO and 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 2025/26, the metrics set are as follows: • Customer and Environment: (5.00% each unless otherwise specified): 1. Base Opex and Capex Costs (25%) 2. C-MeX 3. D-MeX 4. Compliance Risk Index 5. Water quality contacts 6. Leakage 7. Interruptions to supply 8. Unplanned outage 9. Per capita consumption 10. Business demand 11. Serious pollution incidents (2.5%) 12. Discharge from water treatment works (2.5%) 13. Health and safety • People engagement (5%) Personal performance against objectives (15%). The maximum potential value was set at 30% of base salary for both the CEO and CFO. These arrangements were formally agreed during the Remuneration Committee meeting in March 2025.	For 2026/27, the metrics set are as follows: • Customer and Environment: (5.00% each unless otherwise specified): 1. Base Opex and Capex Costs (25%) 2. C-MeX (10%) 3. BR-MeX and D-MeX 4. Compliance Risk Index 5. Leakage 6. Interruptions to supply 7. Low pressure 8. Unplanned outage 9. Per capita consumption 10. Business demand 11. Serious pollution incidents and discharge permit compliance 12. Health and safety Personal performance against objectives (15%). The maximum potential value has been set at 50% of base salary for the CEO and retained at 30% for the CFO. These arrangements were formally agreed by the Remuneration Committee for the CEO in December 2025 and the CFO in April 2026, with the metrics agreed in February 2026.

Remuneration Report continued

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	2026/27 updates
Performance related pay - LTIP				
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%).**	Subject to the achievement of performance conditions, 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. The AMP8 scheme is based on a five-year scheme aligned to the AMP8 period, where each vested performance year award is then paid across the subsequent three years. In order to incentivise executive directors and protect deterioration in performance, an element of future payment amounts remain at risk (50% for year two and 50% for year three). 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. Additionally, further malus and clawback requirements shall apply in accordance with the Water (Special Measures) Act 2025 and the PRP Rule which will result in a non-entitlement to the relevant performance related payment and/or clawback of any relevant performance related pay paid to an executive over a three-year period. The awards do not automatically vest on change of control of the business.	Up to 30% of base salary for the CEO and CFO.	For 2025/26, the methodology, structure, metrics and targets have been set across the five year period from 1 April 2025 to 31 March 2030 as follows: 1. Totex and Outcome Delivery Incentive ('ODI') elements of Return on Regulated Equity (50%) 2. Customer transformation programme (10%) 3. Environmental improvement programme (10%) 4. Water quality and resilience (20%) 5. Environmental performance, including biodiversity (10%). The maximum potential value has been set at 30% of base salary for both the CEO and CFO. These arrangements were formally agreed during the Remuneration Committee meeting in March 2025.	For 2026/27, the methodology, structure, metrics and targets set across the five year period from 1 April 2025 to 31 March 2030 have been maintained as follows: 1. Totex and Outcome Delivery Incentive ('ODI') elements of Return on Regulated Equity (50%) 2. Customer transformation programme (10%) 3. Environmental improvement programme (10%) 4. Water quality and resilience (20%) 5. Environmental performance, including biodiversity (10%). The maximum potential value has been set at 50% of base salary for the CEO and retained at 30% for the CFO. These arrangements were formally agreed by the Remuneration Committee for the CEO in December 2025 and the CFO in April 2026.

Remuneration Report continued

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	2026/27 updates
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 2026/27 up to the date of approval of the Annual Report and Financial Statements.
Retention payments				
To provide competitive remuneration that will attract and retain key employees and reflect their experience and position in the company.	A non-performance related retention payment for the CEO and CFO may be paid in March each year from 2025/26 given the continued significant volatility and challenges faced across the industry, and provided they remain employed for the entire financial year and are not under notice of termination or resignation or subject to an investigation and/or disciplinary proceedings for any conduct-related issues. The retention amount will be subject to annual review.	N/A	N/A	This arrangement will no longer apply to the CEO from 1 April 2026. The arrangement currently in place for the CFO was re-approved by the Remuneration Committee in April 2026 recognising the need to ensure stability of leadership during the transition of CEOs in the business. The need and justification for any future retention payments beyond 2026/27 will be reviewed on an annual basis as part of the overall review of the CFO remuneration structure.
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 2026/27 up to the date of approval of the Annual Report and Financial Statements.

Remuneration Report continued

Executive directors' service contracts

The executive directors currently serving each have service contracts, neither of which are fixed term.

The notice periods for both the CEO and CFO are 12 months from the executive to the company and 12 months from the company to the executive.

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 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 or resigns 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 (including retirement), except where the director is summarily dismissed, their unvested award will lapse.

Additionally, further malus and clawback requirements shall apply in accordance with the Water (Special Measures) Act 2025 and the PRP Rule which will result in a non-entitlement to the relevant performance related payment and/or clawback of any relevant performance related pay paid to an executive over a three-year period.

There are no arrangements in place for the remuneration of directors by any other company in the Group.

Potential remunerations under different scenarios

The following charts show potential remuneration for the 2026/27 financial year under the existing contractual arrangements for both the CEO and CFO under different scenarios.

Remuneration Report continued

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.
Retention	Consists of a non-performance related payment recognising the continued employment of the executive director for the entire financial year and subject to the individual not being under notice of termination or resignation or subject to an investigation and/or disciplinary proceedings for any conduct-related issues. The retention amount will be subject to annual review.
Performance Related - 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, people engagement, and personal targets are met), in addition to awards from LTIP schemes as they vest and become payable in the look-out period covered.
Performance Related - 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, people engagement, 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:

- 25% of the total bonus is dependent on the achievement of financial performance targets, which are identical to the executive directors' annual bonus scheme;
- 60% of the total bonus is dependent on the achievement of operational, customer, environmental, safety and people engagement performance targets, which are identical to the executive directors' annual bonus scheme; and
- 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 15% of their salary, are also determined by reference to the same three components and weightings:

- 25% of the total bonus is dependent on the achievement of financial performance targets;
- 60% of the total bonus is dependent on the achievement of operational, customer, environmental, safety, and people engagement performance targets; and
- 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.

Remuneration Report continued

Remuneration Implementation Report

1 Company-wide bonus scheme

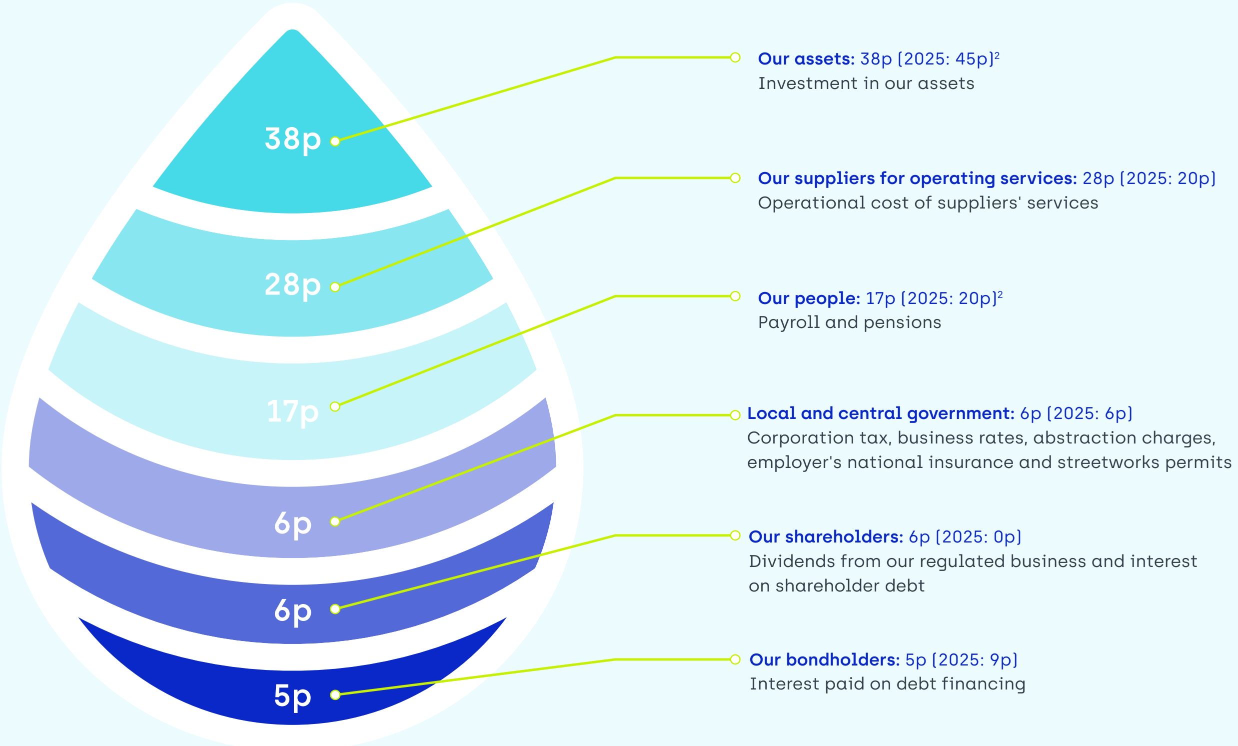
The Committee reviews and approves a discretionary company-wide performance bonus scheme for all employees, who are not, otherwise, entitled to the discretionary ELT or other selected manager performance bonus scheme. The discretionary company-wide bonus scheme comprises operational, customer, environmental, safety 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 2025/26 has remained comparable to the prior year on a proportionate basis, reflecting the inflationary 3.3% increase in basic salary for employees with effect from 1 April 2025, with the average number of employees also increasing during the year compared to prior year headcount.

Our people costs are still our third-highest expenditure type, after our assets and our suppliers for operating services, being 17p (2025: 20p) per pound of total expenditure, as shown below[1].



1 Figures are based on our regulatory financial statements for the year ended 31 March 2026, and have been rounded

2 While this appears as a decrease on a pence per pound basis, underlying expenditure on assets and people has increased year on year

Remuneration Report continued

Sections that are audited and unaudited are defined in the relevant headings in the implementation report.

Directors' remuneration 2025/26 (audited)

The following table shows the directors' remuneration in respect of 2025/26.

	Base salary/fees[2]		Taxable benefits[3]		Annual bonus		LTIP[4]		Pension-related benefits[5]		Other[6]		Total fixed remuneration		Total variable remuneration		Total	
	£000 25/26	£000 24/25	£000 25/26	£000 24/25	£000 25/26	£000 24/25	£000 25/26	£000 24/25	£000 25/26	£000 24/25	£000 25/26	£000 24/25	£000 25/26	£000 24/25	£000 25/26	£000 24/25	£000 25/26	£000 24/25
Non-executive																		
Current																		
Shelley Malton	**59**	54	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**59**	54	**–**	–	**59**	54
Chris Newsome	**63**	63	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**63**	63	**–**	–	**63**	63
Justin Read	**65**	63	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**65**	63	**–**	–	**65**	63
Former																		
Trevor Didcock	**–**	56	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	56	**–**	–	**–**	56
Company Chair																		
Current																		
Mike Brown[1]	**195**	45	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**195**	45	**–**	–	**195**	45
Former																		
Ian Tyler	**–**	171	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	171	**–**	–	**–**	171
Executive																		
Current																		
Keith Haslett	**550**	392	**20**	10	**117**	350	**–**	251	**66**	47	**–**	503	**636**	449	**117**	1,104	**753**	1,553
Adam Stephens[1]	**350**	68	**22**	3	**76**	46	**88**	56	**42**	8	**172**	117	**506**	79	**244**	219	**750**	298
Former																		
Martin Roughead	**–**	123	**–**	3	**–**	53	**–**	-	**–**	15	**–**	–	**–**	141	**–**	53	**–**	194
	1,282	1,035	**42**	16	**193**	449	**88**	307	**108**	70	**172**	620	**1,524**	1,121	**361**	1,376	**1,885**	2,497

2 Remuneration for Mike Brown and Adam Stephens in 2024/25 reflects payments on a pro-rata basis for their periods in office.

3 Non-executive director fees comprise a base fee of £52,000, with incremental fees for additional Committee Chairship, Senior Independent Director and Non-Executive Employee Engagement Director responsibilities.

4 Taxable benefits comprise company car allowance and healthcare.

5 The LTIP amounts disclosed for Adam Stephens in 2025/26 relate to the LTIP scheme vesting in the year ended 31 March 2026, and will be paid in equal instalments over the three years ending 31 March 2027, 31 March 2028 and 31 March 2029 (subject to any recalibration required for later performance years). The LTIP amounts disclosed for Keith Haslett and Adam Stephens in 2024/25 relate to the LTIP schemes fully vesting in the year ended 31 March 2025 (applied on a pro-rata basis for periods of service as appropriate), the amount for Adam Stephens being paid in equal instalments over the three years ending 31 March 2026, 31 March 2027 and 31 March 2028.

6 Pension-related benefits for Keith Haslett and Adam Stephens in 2025/26 comprised amounts paid in lieu of being a member of the pension scheme; there were no amounts outstanding at the year-end. Pension-related benefits for Adam Stephens and Martin Roughead in 2024/25 comprised amounts paid in lieu of being a member of the pension scheme, and for Keith Haslett in 2024/25 comprised contributions paid to the company's money purchase scheme up to 30 September 2024, and amounts paid in lieu of being a member of the pension scheme thereafter; there were no amounts outstanding at the year-end.

7 Other remuneration in 2025/26 for Adam Stephens related to a retention payment of £92,000, a relocation allowance of £24,000 and a forfeited LTIP payment from his previous employer amounting to £56,000. Other remuneration in 2024/25 for Keith Haslett related to the December 2024 and July 2025 accelerated bonus and LTIP retention payments following a reconciliation at the end of the year five performance year, and for Adam Stephens related to forfeited retention and bonus payments from his previous employer amounting to £75,000 and £38,000 respectively, and a relocation allowance of £4,000.

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 Global Investors on behalf of the Allianz Group, CVC 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)

As disclosed in the table above, a bonus payment totalling £117,000 will be made to Keith Haslett relating to the annual bonus scheme for executive directors, reflecting his full period of service during the year to 31 March 2026.

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 2025/26 for Keith Haslett as CEO and Adam Stephens 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	2025/26 target	2025/26 actual	Target met	Maximum weighting for 2025/26 (as a % of base salary) Keith Haslett	Maximum weighting for 2025/26 (as a % of base salary) Adam Stephens	2025/26 achievement (as a % of base salary) Keith Haslett	2025/26 achievement (as a % of base salary) Adam Stephens
Financial measures								
Base operating plus base capital costs	Targeting base operating and capital expenditure ensures we can invest in our assets efficiently	£370.0m or less	£365.0m	●	7.50% £41,250	7.50% £26,250	7.50% £41,250	7.50% £26,250
Customer and environment measures								
C-MeX[1]: score	Targeting an improvement in the C-MeX positions ensures we focus on providing a great service to customers	73.0 or more	60.1	●	1.50% £8,250	1.50% £5,250	0.0% £nil	0.0% £nil
D-MeX[2]: score	Targeting an improvement in the D-MeX positions ensures we focus on providing a great service to developers	90.0 or more	83.5	●	1.50% £8,250	1.50% £5,250	1.50% £8,250	1.50% £5,250
Leakage: volume of water lost through leaks on the network (Ml/d)	Targeting a continued reduction in leakage will ensure customers have enough water, and leave more water in the environment	139.0 Ml/d or less	149.8 Ml/d	●	1.50% £8,250	1.50% £5,250	0.0% £nil	0.0% £nil
Water quality: Customer contacts reported per 1,000 population	Targeting low customer contact ensures customers have high-quality water	0.67 or less	0.72	●	1.50% £8,250	1.50% £5,250	0.89% £4,901	0.89% £3,119
Water quality: CRI score	Targeting a low CRI score ensures customers have high-quality water	1.83 or less	3.13	●	1.50% £8,250	1.50% £5,250	0.0% £nil	0.0% £nil
Customer consumption: PCC litres per person per day	Targeting customer consumption ensures we can make sure customers have enough water, and leave more water in the environment	151.7 or less	154.5 l/p/d	●	1.50% £8,250	1.50% £5,250	0.81% £4,439	0.81% £2,825
Business demand: volume of water (Ml/d)	Targeting customer consumption ensures we can make sure customers have enough water, and leave more water in the environment	154.8 Ml/d or less	162.9 Ml/d	●	1.50% £8,250	1.50% £5,250	0.0% £nil	0.0% £nil
Interruptions to supply: minutes interrupted above three hours	Targeting few interruptions to supply ensures we can minimise disruption for customers and the community	5 minutes and 00 seconds or less	4 minutes and 35 seconds	●	1.50% £8,250	1.50% £5,250	1.19% £6,567	1.19% £4,179
Unplanned outage (%)	Targeting unplanned outage ensures we can minimise disruption for customers and the community	2.20% or less	1.0%	●	1.50% £8,250	1.50% £5,250	1.50% £8,250	1.50% £5,250
Serious pollution incidents: category 1 or 2 incidents	Targeting zero serious pollution incidents ensures we are demonstrating our commitment to customers and the environment	0	0	●	0.75% £4,125	0.75% £2,625	0.75% £4,125	0.75% £2,625
Discharge from water treatment works: percentage compliance with discharge permits	Targeting full discharge compliance ensures we are demonstrating our commitment to customers and the environment	100%	100%	●	0.75% £4,125	0.75% £2,625	0.75% £4,125	0.75% £2,625
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 safely to deliver our customer outcomes effectively	0.11 or below	0.13	●	1.50% £8,250	1.50% £5,250	1.00% £5,495	1.00% £3,497
People measure								
People engagement score	Targeting a high people engagement score ensures our people can work to deliver our customer outcomes effectively	0.82 or more	8.2	●	1.50% £8,250	1.50% £5,250	1.50% £8,250	1.50% £5,250
Personal performance[3]:					4.50% £24,750	4.50% £15,750	3.90% £21,449	4.20% £14,699
Total percentage of base salary					30.00%	30.00%	21.29%	21.59%
Base salary							**£550,000**	**£350,000**
Bonus paid							**£117,101**	**£75,569**

Key: ● Stretch met ● Target met ● Threshold 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 2025/26.

Remuneration Report continued

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)

An award was granted to Adam Stephens with a vested amount of £88,000 relating to the 2025/26 LTIP scheme, the targets of which are summarised on page 119. No award was granted to Keith Haslett.

An amount of £57,000 was also paid to Adam Stephens in August 2025 relating to a forfeited LTIP payment from his previous employer.

The 2025/26 LTIP award was calculated with target and actual amounts based on an initial award of base salary of 30.0%.

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 101 to 108 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 2026 to 31 March 2027 has been negotiated with trade unions, resulting in the following:

- 3.3% increase to the basic pay of all employees earning a full time equivalent basic salary of £30,000 and above (3.3% for the period 1 April 2025 to 31 March 2026);
- 3.6% increase to the basic pay of all employees earning a full time equivalent basic salary of £29,999 and below (3.3% for the period 1 April 2025 to 31 March 2026); and
- 3.3% or 3.6% increase in allowances that are taxable and pensionable, primarily flexible, and standby allowances, based on the criteria outlined above (3.3% for the period 1 April 2025 to 31 March 2026).

This pay deal also applied to the executive directors, and as such the CFO will receive an increase of 3.3% with effect from 1 April 2026. In the previous year, the pay deal was considered in its application to executive directors as part of the Remuneration Committee's approval to segment the overall remuneration package between fixed, retention and performance related pay elements for AMP8.

The table below shows the absolute values and percentage changes of the remuneration of our Board members over the past five years. Remuneration included in the table relates to total base salary or fees, taxable benefits, retention and annual bonus only.

	Total base salary/fees, taxable benefits and annual bonus					Percentage change from				
	2025/26	2024/25	2023/24	2022/23	2021/22	2024/25	2023/24	2022/23	2021/22	
	£000	£000	£000	£000	£000	%	%	%	%	
Non Executive Director (NED)										
Trevor Didcock (former NED):										
Fees	–	56	64	60	51	N/A	(12.2%)	6.7%	15.0%	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; Director resigned from 28 February 2025
Shelley Malton:										
Fees	**59**	54	17	-	-	9.8%	210.1%	100.0%	N/A	Director appointed on 1 December 2023, and became Chair of the Remuneration Committee from 1 January 2025

Remuneration
Report continued

	Total base salary/fees, taxable benefits and annual bonus					Percentage change from				
	2025/26 £000	2024/25 £000	2023/24 £000	2022/23 £000	2021/22 £000	2024/25 %	2023/24 %	2022/23 %	2021/22 %	
Chris Newsome:										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 Non-Executive Director of Employee Engagement role
Fees	**63**	63	63	56	49	0.0%	0.0%	12.5%	14.3%	
Justin Read:										Director appointed on 14 July 2020; change in 2023/24 and 2022/23 reflects an increase in fixed fee from 1 October 2022; change in 2024/25 reflects an increase due to Senior Independent Director appointment
Fees	**65**	63	60	55	50	3.3%	4.9%	9.1%	10.0%	
Company Chair										
Mike Brown:										Director appointed on 14 October 2024 as Chair Designate, with full appointment to Chair occurring from 17 February 2025
Fees	**195**	45	–	–	–	332.9%	100.0%	N/A	N/A	
Ian Tyler (former Chair):										Chair resigned from 17 February 2025, following appointment on 11 January 2021; includes £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
Fees	**–**	171	195	234	195	N/A	(12.4%)	(16.7%)	20.0%	
Executive Director										
Keith Haslett:										Director appointed on 3 January 2023; 3% inflationary increase applied from 1 April 2023 and 4.2% from 1 April 2024; increased bonus in 2024/25 due to improved business scorecard in the year; retention payments made in December 2024 and July 2025; 2025/26 remuneration reflects AMP8 package segmentation changes between fixed, retention and non-contractual performance related pay elements, thereby impacting the amount of bonus earned
Salary	**550**	392	376	91	-	40.4%	4.2%	312.0%	100.0%	
Taxable benefits	**20**	10	16	3	-	100.0%	(37.5%)	433.3%	100.0%	
Bonus	**117**	350	272	34	-	(66.6%)	28.7%	700.0%	100.0%	
Retention	**-**	503	-	-	-	(100.0%)	100.0%	N/A	N/A	
Pension benefits	**66**	47	45	-	-	40.4%	4.2%	100.0%	100.0%	
Adam Stephens:										Director appointed on 1 January 2025; 2025/26 remuneration reflects AMP8 package segmentation changes between fixed, retention and non-contractual performance related pay elements
Salary	**350**	68	-	-	-	418.5%	100.0%	N/A	N/A	
Taxable benefits	**22**	3	-	-	-	569.2%	100.0%	N/A	N/A	
Bonus	**76**	46	-	-	-	67.8%	100.0%	N/A	N/A	
Pension benefits	**42**	8	-	-	-	418.5%	N/A	100.0%	N/A	
Martin Roughead (former CFO):										Director appointed on 17 April 2023 and resigned from 4 October 2024
Salary	**-**	123	220	-	-	N/A	(44.1%)	100.0%	N/A	
Taxable benefits	**-**	3	12	-	-	N/A	(75.0%)	100.0%	N/A	
Bonus	**-**	53	123	-	-	N/A	(56.9%)	100.0%	N/A	
Pension benefits	**-**	15	27	-	-	N/A	(44.1%)	100.0%	N/A	

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
2025/26	**Option B**	**19.8:1**	**13.9:1**	**12.2:1**
2024/25	Option B	50.0:1	26.9:1	18.4:1
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 2025/26 are calculated using the 5 April 2025 gender pay gap data as permitted under Option B. Option B was used as the gender pay gap reporting date falls within the 2025/26 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 2025 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 2025/26 remuneration for the employees identified, which includes wages and salary, taxable benefits, their accrued 2025/26 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 2025/26 for Keith Haslett. There was a decrease in the CEO pay ratio for all of the three percentiles in the year, mainly due to three individual LTIP schemes fully vesting on 31 March 2025 and therefore included in the prior year comparison.

2025/26	Salary component of total pay and benefits	Total pay and benefits
25th percentile pay ratio	£33,064	£38,072
Median pay ratio	£49,215	£54,267
75th percentile pay ratio	£56,815	£61,483

The Remuneration Committee has considered the executive remuneration in light of the CEO pay ratio and considers that the current and forward-looking policies are appropriate. 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.

In March 2026, 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 second year, we also followed recognised good practice in publishing ethnicity pay information.

The report shows that our gender pay gap on the median measure has continued to decrease compared to previous years, falling from 26.0% in April 2024 to 24.8% in April 2025. The mean measure also decreased from 18.2% to 16.7%. One of the main drivers of our gender pay gap remains the distribution of roles across the company, with women under-represented in skilled technician positions and in senior leadership. However, progress has been made with:

- the proportion of women in senior leadership roles becoming more reflective of the wider organisation;
- our talent pipeline now being more gender balanced, with almost equal representation of men and women in our manager and leader development programmes;
- improvements being made to our family leave policies strengthening retention following maternity leave; and
- engagement scores and scores for inclusiveness in our quarterly employee survey being the same for men and women.

Our ethnicity pay data shows that median hourly pay for Asian/Asian British employees was 1.3% lower than for White/White British employees in April 2025, down from 1.4% in April 2024, although mean hourly pay showed an increase in the gap from 3.4% to 4.0%.

For Black/Black British employees median hourly pay showed a gap of 12.5% in April 2025 compared to White/White British employees, an increase from 6.2% in April 2024, with the mean hourly pay gap also increasing from 7.8% to 12.3%.

We have continued to attract greater ethnic diversity through our early careers focus, which means our minority ethnic workforce is more skewed towards younger age groups and more junior levels. Separate to this, there is still an under-representation of minority ethnic talent in management and leadership roles, however, there is greater diversity within the pipeline, for example in our mentoring and leadership development programmes.

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 30 June 2026 and signed on its behalf by:

Shelley Malton

Chair of the Remuneration Committee

30 June 2026

Ownership and financing

Ownership

On 19 May 2017, Affinity Water Acquisitions (Investments) Limited (now liquidated) was acquired by a consortium comprising CVC DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Global Investors on behalf of the Allianz Group. As part of the transaction, the consortium also acquired Veolia Water UK Limited's former 10% equity interest stake in the company.

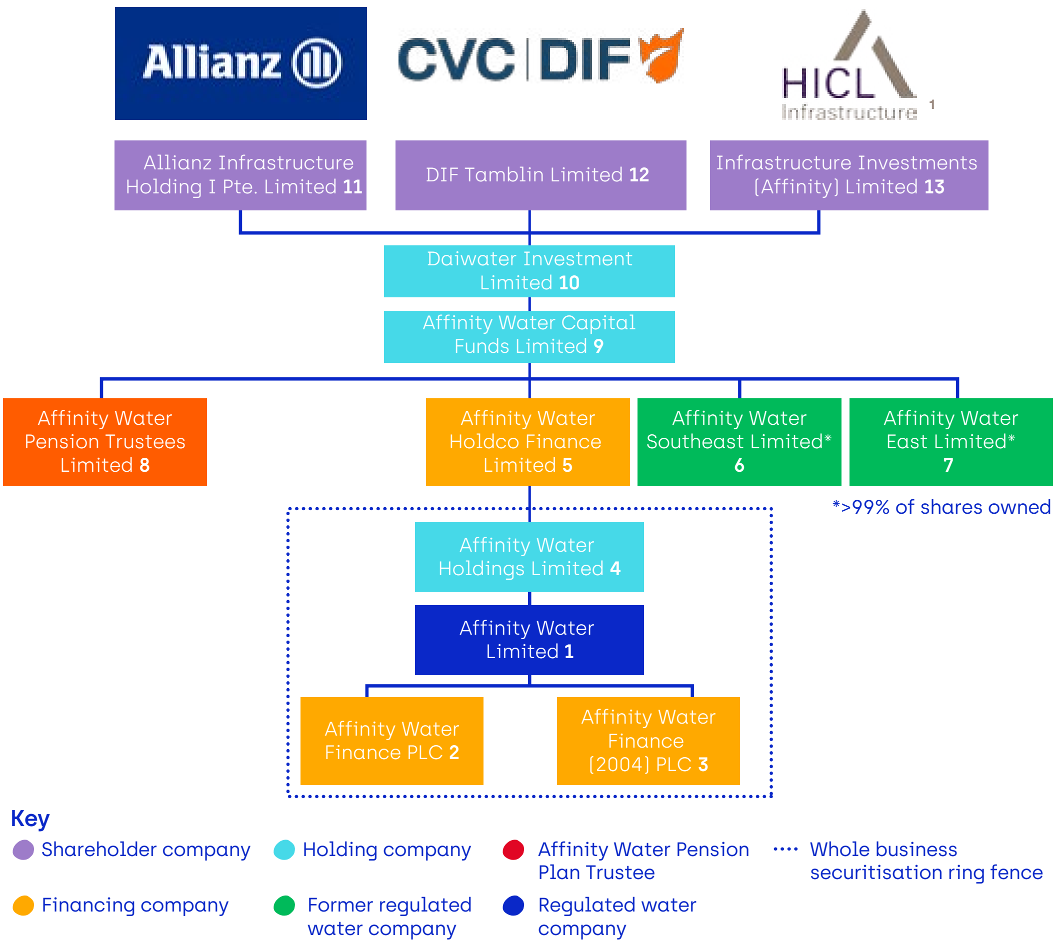
Subsequent to the initial acquisition, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) sold down 3.4% of its interest to a small group of co-investors, comprising UK local authority pension funds in June 2017. On 1 April 2019, HICL Infrastructure Company Limited transferred 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 2026. 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 85 to 87.



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

Ownership and financing continued

Ownership continued

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 Independent Non-Executive Directors ('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 3.99 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 South East region 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 East region 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 as appropriate to the acquisition consortium subsidiaries.	England and Wales
11	Allianz Infrastructure Holding I Pte. Limited	A company, which holds indirectly Allianz's investment in the Group.	Singapore
12	DIF Tamblin Limited	A company established in 2017 to hold indirectly CVC 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

Ownership and financing continued

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 issued an external bond of £250.0 million in previous years. In the previous financial year, the company repaid part of this bond, with the remaining balance now £102.7 million; and
- Affinity Water Finance PLC issued external bonds totalling £880.0 million in previous years. Following the completion of a new £350.0 million bond issuance in the previous financial year, this amount has increased to £1,230.0 million. This new bond is classified as a Class A Green Bond.

We consider 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 2026 can be summarised as follows:

Debt	Bond (£m)	Coupon	Maturity date	Issuing Entity
Class A fixed rate bond 2026*	102.7	5.875%	July 2026	Affinity Water Finance (2004) PLC
Class A fixed rate bond 2036*	250.0	4.500%	March 2036	Affinity Water Finance PLC
Class A RPI linked bond 2045*	190.0	1.548% (real)	June 2045	Affinity Water Finance PLC
Class A CPI linked green bond 2038	130.0	0.010% (real)	September 2038	Affinity Water Finance PLC
Class A fixed rate bond 2042*	85.0	3.278%	August 2042	Affinity Water Finance PLC
Class A fixed rate bond 2033*	60.0	2.699%	November 2033	Affinity Water Finance PLC
Class A CPI linked bond 2042*	60.0	0.230% (real)	November 2042	Affinity Water Finance PLC
Class A Fixed rate green bond 2040*	350.0	6.250%	September 2040	Affinity Water Finance PLC
Total Class A	**1,227.7**			
Class B RPI linked bond 2033	95.0	3.249% (real)	June 2033	Affinity Water Finance PLC
Class B RPI linked bond 2033*	10.0	1.024% (real)	June 2033	Affinity Water Finance PLC
Total Class B	**105.0**			
Total	**1,332.7**			

* Listed on the London Stock Exchange

Our next significant debt maturity is in July 2026, when our £102.7 million fixed rate bond matures, which will be repaid using available surplus cash. 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 2026 was £1,449.4 million, a reduction of £37.9 million since last year (2025: £1,487.3 million), primarily due to the equity injection during the year which has been offset by increased capital expenditure on our network in addition to accretion on the index-linked bonds. Our gearing, as measured by net debt to RCV at 31 March 2026, was 69.1% (2025: 77.5%), this is in line with our expectations as set out when we accepted the Final Determination and announced a £150.0 million equity injection.

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.

Ownership and financing continued

Our financing continued

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, 53.2% of our gross borrowings were at fixed rates (2025: 54.1%), 30.8% (2025: 30.2%) at rates indexed to RPI and 16.0% (2025: 15.8%) at rates indexed to CPI. Considering our index-linked inflation swaps, the proportion of borrowings at fixed rates increased to 22.3% (2025: 7.5%); the proportion indexed to RPI decreased to 45.1% (2025: 50.6%); and the proportion indexed to CPI decreased to 32.6% (2025: 37.2%); the proportion indexed to floating decreased to 0% (2025: 4.8%). The credit ratings for our subsidaries' bonds assigned by the rating agencies, Moody's, Standard and Poor's, and Fitch have not change in the year and can be seen in the table below:

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

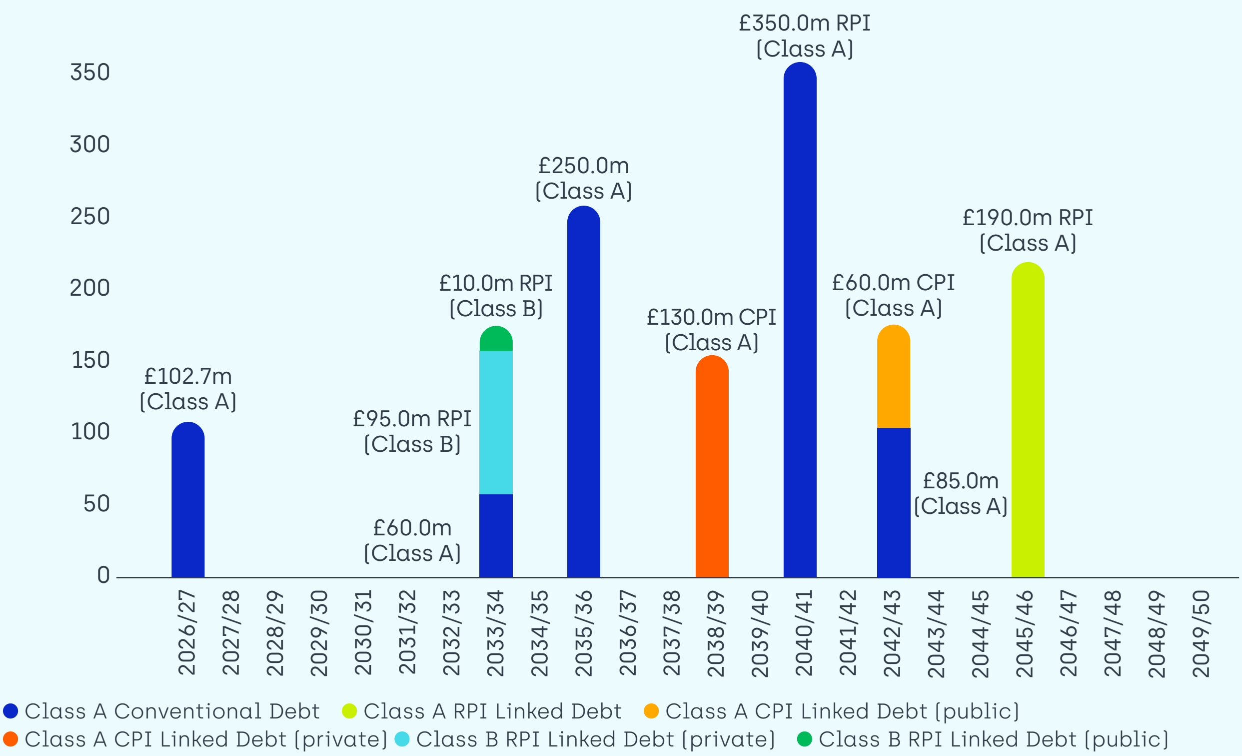
* Negative outlook applied by Standard & Poor's

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 2026, we had cash balances of £164.1 million (2025: £128.0 million) and short-term deposits held as investments of £129.1 million (2025: £80.8 million).

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 (2025: £100.0 million), which were undrawn at 31 March 2026 (2025: undrawn), to finance capital expenditure and working capital requirements.

In addition, we have access to a further £81.0 million of liquidity facilities (2025: £57.0 million), consisting of a 364-day revolving £49.0 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 £32.0 million to fund operating and capital maintenance expenditure in the event of a liquidity shortfall.

Debt maturity profile



Directors' Report

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 2026. The company is a limited liability company registered in England and Wales with registered company number 02546950 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 2026. Details of the ownership of the company and the Group structure are set out on page 133 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 2026. This Directors' Report should be read in conjunction with the other sections of this Annual Report as detailed below to fulfil these requirements, which are incorporated into the Directors' Report by reference. In accordance with section 414C (11) of the Companies Act 2006 and the Companies (Miscellaneous Reporting) Regulations 2018, the Board has included certain disclosures in other sections of the Annual Report as detailed under the relevant headings below.

Directors

The directors of the company as at 31 March 2026, together with their periods of office and their biographical details, are shown on pages 85 to 87. During the reporting year, Keith Haslett resigned as director on 31 March 2026.

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 15.

Risks and principal uncertainties

Details of the Company's risks and principal uncertainties during the year are set out in the Strategic Report on pages 69-76.

Results and financial performance

The company reports a loss for the year £6.2 million (2025; £16.8 million loss) with net assets of £134.8 million and prior year net liabilities of £138.5 million. Further analysis of our financial performance can be found in the Financial Review by the Chief Financial Officer on page 58 of the Strategic Report.

Revaluation of property, plant and equipment

During the year, the company adopted a revaluation model for property, plant and equipment in accordance with International Accounting Standard ('IAS') 16: 'Property, Plant and Equipment' ('IAS 16'). For disclosures relating to the revaluation of property, plant and equipment, please refer to page 169.

Information required under the Listing Rules

For disclosures relating to the relevant requirements of the Listing Rules, please refer to the Remuneration Report on pages 114 to 132.

Dividends

Affinity Water funds its substantial investment programme through a mix of equity and debt. This enables lower customer bills as the cost of investment in our assets can be recovered over a longer period, while also supporting the efficient and effective delivery of services for customers today.

Equity investment is supported by the payment of dividends to shareholders and debt is supported by the payment of interest to banks and bondholders. Prior to March 2026, Affinity Water had not paid an equity dividend since the final year of AMP6 with our shareholders having reinvested all returns since then into further capital investment, and also having recently invested a further £150.0 million to support the company's expanded AMP8 delivery programme.

We will pay dividends to our shareholders in accordance with our dividend policy which is fully compliant with our licence obligations and with Ofwat's rules. Under this policy, dividends should provide an appropriate return to shareholders for their investment whilst also ensuring the company can continue to finance its functions and meet its obligations as a water undertaker while protecting long-term financial resilience. When declaring or paying a dividend, the Board will perform an in the round assessment that will include:

- considering company performance for customers and the environment across all aspects of delivery against its licence, including performance commitments, investment plans, cost efficiency and other areas of its operations;
- give consideration to the company's current and future investment needs and financial resilience over the short and longer term; and
- have due regard to whether the dividend rewards efficiency and the effective management of the business, including performance across a number of periods.

This assessment is fully compliant with the Ofwat licence condition on dividends introduced in 2023.

Dividends are considered by reference to forecast financial and operational performance to ensure they do not compromise the company's future performance.

Other factors considered by the Board in relation to proposed dividends include the company's actual and forecast level of gearing, the liquidity available to the company, the need to maintain its credit ratings,

Directors' Report continued

the allowed cost of capital, and any outperformance achieved or forecast.

A dividend of £34.5 million was paid during the year. During AMP7, shareholders agreed to re-invest all planned returns from the appointed business for the benefit of customers. In AMP8, following the equity injection, dividend payments resumed following improved forecast performance and the generation of distributable reserves. Our dividend policy is available on our website: **affinitywater.co.uk/governance**

Political contributions

No political contributions were made during the year (2025: £nil), in accordance with the company's policy of not making political contributions.

Energy and carbon reporting

Details regarding greenhouse gas emissions, energy consumption, and energy efficiency action can be found within our Environmental Risk and Opportunity Report from page 31 onwards.

Research and development

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; water resources and catchment management; climate change; water mains and services; demand management, leakage and smart metering.

In addition to UKWIR, 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 "man-made" chemicals widely used within industrial processes.

Innovation

During 2025/26, we paid £2,579,000 into Ofwat's Water Innovation Fund, an industry-wide initiative to drive transformational change and better meet the evolving needs of customers, society, and the environment. In 2025/26, we have made progress in other projects supported by the fund, either as the leading organisation or a partner.

We have recently been awarded funding for a new project due to run until 2028, Smart Watch. This project will transform how water companies detect and manage risks to drinking water quality. Using remote sensing technologies (including Earth observation and AI), it will develop automated, high-frequency tools to identify emerging risks across catchments. This project is supported by another eight water companies and will provide a sector-wide step change in how we monitor and maintain our environmental challenges.

Affinity are leading Project Zero, originally 'Water Neutrality at NAV Sites', which continues to extend water industry understanding of ways to reduce net water demand. With the project entering it's final stages, we are continually learning which water saving devices are most effective in the journey towards 'water usage neutrality', whilst simultaneously understanding which customer behaviours contribute to this target and how these can best be influenced.

We are also active partners in several further projects across a range of subjects, all of which have made notable progress in the year. 'Sandscape' aims to develop remote controlled, underwater sand skimming robots that will make the maintenance of our slow sand filters more efficient. Alongside 'Safe, Smart Systems', the launch of 'Designer Liner 2' seeks to extend the work completed in Phase 1 defining the most effective pipe lining solutions. Moreover 'In-Situ GAC Renewal' will identify ways of avoiding the costly and time consuming need to take GAC off-site to renew.

More information can be found regarding all of these projects at waterinnovation.challenges.org/.

Financial instruments disclosures

Details are included within risk number 9 on page 74 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. For further details on employee matters see our Strategic Report and Nomination Committee Report.

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 and through our Non-Executive Director for Employee Engagement. We discuss ways to enhance and

Directors' Report continued

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 66 for details in our Section 172(1) statement on how directors have engaged with employees.

Engagement with other stakeholders

See page 61 onwards for details in our Section 172(1) statement on how we 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 relevant to the Disclosure and Transparency Rules, can be found in the Corporate Governance Report on page 94 of this Annual Report and Financial Statements which forms part of this Directors' Report and is incorporated into it by cross-reference. We have reported our compliance with Ofwat's BLTG principles which can be found **here** and the UK Corporate Governance Code which is available **here**.

Events after the reporting period

On 28 May 2026, Affinity Water Limited's subsidiary, Affinity Water Finance PLC, issued a new £50,000,000 debt instrument in the form of a private placement. The proceeds from the private placement will be received in August 2026 and will incur an interest rate of 6.56%. The private placement was issued under Affinity Water Limited's WBS structure, matures in August 2041 and is Class A in nature.

There are no other post balance sheet events that require adjustment to or disclosure in the financial statements.

Going concern

The directors 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 77 to 80, as well as consideration of the company's budgeted cash flows, short and long term budget, ability to generate future revenues, covenant compliance and available debt facilities.

The company has significant debt maturities (£102,676,000) and inflation swap maturities (c.£95,000,000) in July 2026. The directors have assessed existing cash balances, available undrawn facilities and budgeted cash flows and are satisfied that there is sufficient liquidity to meet these liabilities as they fall due. The directors have also taken account of the £50,000,000 debt issuance which took place after the reporting period on 28 May 2026 (see page 185). Whilst this issuance improves liquidity in the going concern period, it did not materially change the outcome of the going concern assessment.

To assess a severe but plausible downside scenario, the Directors have considered a base case scenario that reflects the current market conditions in the economy and have applied a downside scenario that captures the potential financial impact of principal risks occurring. The downside scenario assumes a £54,000,000 increase in costs (15% increase in total expenditure for Wholesale Appointed business – excludes non appointed and Retail). These may arise from regulatory fines and legal costs, weather-related incidents, water quality issues and unfunded costs excluded from Ofwat's price control framework.

Based on these budgets and the ability to absorb the impact of the severe but plausible downside scenario, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

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. Details of the company's cash and short-term investment are included in the statement of financial position on page 152, 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 other events after the reporting period significantly affecting liquidity headroom or budgeted covenant compliance.

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. The company maintains an appropriate level of directors' and officers' liability insurance.

Directors' Report continued

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 the requirements of the Companies Act 2006 and applicable regulations.

Company law stipulates that the directors must prepare financial statements for each financial year. The directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP), including United Kingdom Accounting Standards comprising FRS 101 'Reduced Disclosure Framework', and relevant legislation. The directors must not approve the financial statements unless they are satisfied that these present a true and fair view of the company's financial position and performance for the period.

In preparing the financial statements, the directors are required by law to:

- select suitable accounting policies and apply them consistently;
- state whether United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained within the financial statements;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to assume that the company will continue in business.

The directors are responsible for safeguarding the company's assets and are required to take appropriate steps to prevent and detect fraud and other irregularities.

The directors must also keep adequate accounting records, sufficient to explain the company's transactions and disclose with reasonable accuracy the company's financial position at any time, enabling 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

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

Simon Pugsley
General Counsel and Company Secretary

30 June 2026

Registered Office:

Affinity Water Limited
Tamblin Way
Hatfield
Hertfordshire
AL10 9SE

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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 2026 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 2026;
- the Income statement for the year then ended;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- 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.

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

- Revaluation of Property, Plant and Equipment
- Adequacy of loss allowance for trade receivables
- Assessment of cost capitalisation

Materiality

- Overall materiality: £5.1 million (2025: £4.3 million) based on approximately 0.2% of total assets.
- Performance materiality: £3.8 million (2025: £3.2 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.

Revaluation of Property, Plant and Equipment is a new key audit matter this year. Accuracy of Measured Income Accrual, which was a key audit matter last year, is no longer included because of the historical accuracy of management's estimate. Otherwise, the key audit matters below are consistent with last year.

Independent Auditors' report
to the members of Affinity Water Limited continued

Key audit matter	How our audit addressed the key audit matter
Revaluation of property, plant and equipment Refer to page 105 (Audit, Risk and Assurance Committee Report), page 158 (accounting policies), page 169 (note 6) and page 187 (note A3). During the year, the company changed its accounting policy in respect of operational structures, potable water distribution mains, raw water pipes and fixed plant, moving from a historical cost basis to a revaluation model under IAS 16. As a result, the carrying value of these assets has been uplifted by £214.0 million as at 31 March 2026, with a corresponding deferred tax liability of £53.5 million. Due to the specialised nature of the assets, their fair value has been determined using an income approach (based on discounted future cash flows). The revaluation gain has been allocated across the relevant asset categories based on each category's respective contribution to the underlying cash flows. This area was identified as a key audit matter due to the significance of the amounts involved, the level of management judgement and estimation uncertainty inherent in the underlying cash flow forecasts and key assumptions (including the discount rate and inflation rates), and the complexity of the accounting considerations associated with adopting the revaluation model for the first time.	We assessed the appropriateness of the methodology adopted by management, including the use of the income approach as the basis for determining fair value. We tested the accuracy of the valuation model, evaluated and challenged the underlying cash flow forecasts, including independently recalculating appointed revenue based on Ofwat's methodology and challenging management on significant movements in forecast revenue, capital expenditure and operating expenditure. We independently assessed, supported by our internal Valuations experts, the key assumptions applied within the model, including the discount rate (recalculated using a capital asset pricing model approach and benchmarked against our expected range), the terminal value multiple and the inflation assumptions (both being benchmarked against externally available data). We also performed sensitivity analysis on the discount rate. We considered and challenged the key accounting judgements set out in management's accounting paper, including the allocation of the revaluation gain across the relevant asset categories, the treatment of brought forward accumulated depreciation, and the subsequent depreciation of the revalued assets. Based on the procedures performed, we did not identify any material misstatements. We also assessed the disclosures in respect of the fair valuation and consider these to be appropriate.

Independent Auditors' report
to the members of Affinity Water Limited continued

Key audit matter	How our audit addressed the key audit matter
Adequacy of loss allowance for trade receivables Refer to page 105 (Audit, Risk and Assurance Committee Report), page 157 (accounting policies), page 174 (note 12), page 189 (note A3) and page 193 (note A4). The loss allowance for trade receivables of £35.9 million (31 March 2025: £37.8 million) was calculated by applying a range of provision rates to receivables based on their ageing, with rates based on historical cash collection patterns and higher rates applied to older balances to reflect increased credit 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. 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 evaluated the methodology for calculating the underlying loss allowance for trade receivables, with our procedures focused on the consistency of application with the prior year and, where changes have been made in the current year, assessing whether these are supported by an appropriate business rationale. 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. 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 2026 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.
Assessment of cost capitalisation Refer to page 105 (Audit, Risk and Assurance Committee Report),page 159 (accounting policies), page 169 (note 6) and page 187 (note A3). The additions to assets in course of construction during the year amounted to £201.3 million (year ended 31 March 2025: £201.5 million). These additions arose given 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. Given the magnitude of capital expenditure, there is a risk that incorrect classification could give rise to a material misstatement.	We tested 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 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. In addition to the procedures above, which address the significant risk, we have also performed the following procedures: We tested a sample of capital projects within assets in the 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 2026. 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 2026 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 continued

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 for operational emissions and all carbon emissions by 2050, 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 2026.

Our audit procedures also included reading the company's climate related disclosures and considering whether they are materially consistent with the financial statements and our knowledge obtained during the audit, as well as evaluating financial statement disclosures to assess whether climate risk assumptions were appropriately disclosed, where relevant.

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	£5.1 million (2025: £4.3 million).
How we determined it	approximately 0.2% of total assets
Rationale for benchmark applied	We consider total assets to be the most appropriate benchmark on which to calculate materiality. The company generates revenue and profits almost entirely through the use of its infrastructure assets. Therefore, although the company is trading, we determined that the total asset base is the most appropriate benchmark, aligned to the focus of the Board and shareholders on the maintenance and investment in the infrastructure the company owns and operates. The use of total assets is also a generally accepted auditing benchmark for water companies. We have considered other possible benchmarks, such as revenue and profit based measures, and with reference to the size and scale of the company, we consider the use of approximately 0.2% of total assets to be appropriate. Given that the company is a component for the audits of the consolidated financial statements of Affinity Water Holdco Finance Limited and Daiwater Investment Limited, we have restricted overall materiality below the level of approximately 0.2% of total assets.

Independent Auditors' report
to the members of Affinity Water Limited continued

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% (2025: 75%) of overall materiality, amounting to £3.8 million (2025: £3.2 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 £0.26 million (2025: £0.22 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 over 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 throughout the going concern period; and
- assessing the extent and appropriateness 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

Independent Auditors' report
to the members of Affinity Water Limited continued

the year ended 31 March 2026 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.

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 the auditor. 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.

Independent Auditors' report
to the members of Affinity Water Limited continued

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 (including corporate tax, VAT and PAYE), 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 and judgements, in particular the potential manipulation of the loss allowance for trade receivables, appropriateness of the revaluation of property, plant and equipment and the extent of costs capitalised. Audit procedures performed by the engagement team included:

- inquiries 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 during the year and up to the date of approval of financial statements;
- discussions with the Head of Legal and Head of Ethics & Compliance to discuss both the litigation report and summary of whistleblowing matters arising;
- review of corporation tax calculations and VAT and PAYE filings for compliance with applicable laws and regulations;
- 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 loss allowance for trade receivables and appropriateness of the revaluation of property, plant and equipment;
- 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.

Independent Auditors' report
to the members of Affinity Water Limited continued

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

1 July 2026

Income statement
for the year ended 31 March 2026

(Registered Number 02546950)

	Note	2026 £000	2025 £000
Revenue	1	**438,279**	363,595
Cost of sales		**(322,698)**	(298,099)
Gross profit		**115,581**	65,496
Administrative expenses		**(55,595)**	(42,813)
Impairment losses on financial and contract assets	2.1	**(6,344)**	(9,618)
Other operating income	2.2	**21,033**	20,168
Operating profit	2	**74,675**	33,233
Finance income	4	**22,464**	16,636
Finance costs	4	**(94,595)**	(78,255)
Fair value (loss)/gain on inflation swaps	4	**(11,148)**	14,259
Fair value gain/(loss) on interest swaps	4	**846**	(3,524)
Net finance costs	4	**(82,433)**	(50,884)
Fair value gain on energy swaps		**6,069**	1,426
Loss before tax		**(1,689)**	(16,225)
Income tax expense	5	**(4,532)**	(580)
Loss for the financial year		**(6,221)**	(16,805)

All results of the company in the current year and prior year are from continuing operations.

The notes on pages 155 to 204 are an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 March 2026

(Registered Number 02546950)

	Note	2026 £000	2025 £000
Loss for the financial year		**(6,221)**	(16,805)
Other comprehensive income/(expense) for the year which will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit assets	10	**3,430**	(161)
Deferred tax credit on items that will not be reclassified	5	**(857)**	40
Revaluation of property, plant and equipment	6	**214,000**	–
Deferred taxation on the revaluation of tangible assets	5	**(52,571)**	–
Other comprehensive income/(expense) for the year, net of tax		**164,002**	(121)
Total comprehensive income/(expense) for the year		**157,781**	(16,926)

The notes on pages 155 to 204 are an integral part of these financial statements.

Statement of financial position
as at 31 March 2026

[Registered Number 02546950]

	Note	2026 £000	2025 £000
Assets			
Non-current assets			
Property, plant and equipment	6	**2,256,752**	1,936,893
Right-of-use assets	7	**9,980**	6,580
Intangible assets	8	**33,904**	31,479
Investments	9	**100**	100
Retirement benefit surplus	10	**54,840**	49,746
Derivative financial instruments	11	**1,646**	21
Long-term financial receivable	17	**–**	1,000
		2,357,222	2,025,819
Current assets			
Inventories	13	**5,406**	5,794
Derivative financial instruments	11	**5,146**	955
Trade and other receivables	12	**150,459**	135,189
Short-term investments	9	**129,141**	80,795
Short-term financial receivable	17	**1,048**	1,793
Cash and cash equivalents	14	**164,100**	128,020
		455,300	352,546
Total assets		**2,812,522**	2,378,365
Equity and liabilities			
Equity			
Called up share capital	15	**181**	30,506
Share premium account	15	**–**	1,400
Capital contribution reserve	15	**–**	30,150
Revaluation reserve	15	**50,214**	–
Accumulated gains/(losses)		**84,403**	(200,539)
Total equity		**134,798**	(138,483)
Liabilities			
Non-current liabilities			
Trade and other payables	16	**357,596**	342,426
Borrowings	17	**1,517,117**	1,595,703
Lease liabilities	18	**6,797**	4,412
Derivative financial instruments	11	**72,560**	132,742
Deferred tax liabilities	19	**243,822**	185,862
Provisions for other liabilities and charges	20	**3,395**	2,677
		2,201,287	2,263,822
Current liabilities			
Trade and other payables	16	**274,638**	245,671
Borrowings	17	**102,800**	128
Lease liabilities	18	**3,435**	2,333
Derivative financial instruments	11	**91,383**	253
Provisions for other liabilities and charges	20	**700**	1,163
Current tax liabilities		**3,481**	3,478
		476,437	253,026
Total liabilities		**2,677,724**	2,516,848
Total equity and liabilities		**2,812,522**	2,378,365

The notes on pages 155 to 204 are an integral part of these financial statements. The statutory financial statements on pages 150 to 154 were approved by the Board of Directors and were signed and authorised for issue on 30 June 2026 on its behalf by:

Mike Brown CBE MVO
Company Chair

Adam Stephens
Chief Financial Officer

Statement of changes in equity
for the year ended 31 March 2026

(Registered Number 02546950)

	Called up share capital £000	Share premium account £000	Capital contribution reserve £000	Revaluation reserve £000	Retained earnings/ accumulated losses £000	Total equity £000
Balance as at 1 April 2024	30,506	1,400	30,150	–	(183,613)	(121,557)
Loss for the year	–	–	–	–	(16,805)	(16,805)
Other comprehensive expense	–	–	–	–	(121)	(121)
Total comprehensive expense	–	–	–	–	(16,926)	(16,926)
Balance as at 31 March 2025	30,506	1,400	30,150	–	(200,539)	(138,483)
Balance as at 1 April 2025	30,506	1,400	30,150	–	(200,539)	(138,483)
Loss for the year	**–**	**–**	**–**	**–**	**(6,221)**	**(6,221)**
Other comprehensive income	**–**	**–**	**–**	**161,429**	**2,573**	**164,002**
Total comprehensive income	**–**	**–**	**–**	**161,429**	**(3,648)**	**157,781**
Issue of ordinary shares	**150,000**	**–**	**–**	**–**	**–**	**150,000**
Capital reduction	**(180,325)**	**–**	**–**	**–**	**180,325**	**–**
Cancellation of share premium	**–**	**(1,400)**	**–**	**–**	**1,400**	**–**
Transfer of capital contribution reserve	**–**	**–**	**(30,150)**	**–**	**30,150**	**–**
Issue of deferred shares	**107,500**	**–**	**–**	**(107,500)**	**–**	**–**
Cancellation of deferred shares	**(107,500)**	**–**	**–**	**–**	**107,500**	**–**
Transfer of depreciation on revaluation reserve	**–**	**–**	**–**	**(3,715)**	**3,715**	**–**
Dividends paid	**–**	**–**	**–**	**–**	**(34,500)**	**(34,500)**
Total transactions with owners recognised directly in equity	**(30,325)**	**(1,400)**	**(30,150)**	**(111,215)**	**288,590**	**115,500**
Balance as at 31 March 2026	**181**	**–**	**–**	**50,214**	**84,403**	**134,798**

Further details on these transactions, including movements between reserves and the capitalisation and cancellation of deferred shares, are provided in note 15.

During the year, the company paid an interim dividend of £34,500,000 (£0.02 per share).

The notes on pages 155 to 204 are an integral part of these financial statements.

Statement of cash flows
for the year ended 31 March 2026

(Registered Number 02546950)

	Note	2026 £000	2025 £000
Cash flows from operating activities			
Cash generated from operations	21.1	**178,171**	118,271
Interest paid		**(49,411)**	(53,408)
Net cash inflow from operating activities excluding deferred grants and contributions		**128,760**	64,863
Deferred grants and contributions		**21,984**	17,763
Net cash inflow from operating activities		**150,744**	82,626
Cash flows from investing activities			
Investment of short-term deposits		**(48,347)**	(59,243)
Purchases of property, plant and equipment		**(192,276)**	(164,321)
Proceeds from sale of property, plant and equipment		**2,082**	2,790
Purchases of intangible assets		**(7,736)**	(4,356)
Interest received		**19,459**	13,871
Net cash outflow from investing activities		**(226,818)**	(211,259)
Cash flows from financing activities			
Issuance of share capital		**150,000**	–
Increase in borrowings		**–**	347,130
Principal elements of lease payments	18	**(3,218)**	(2,710)
Repayment of borrowings		**(128)**	(147,544)
Dividends paid		**(34,500)**	–
Net cash inflow from financing activities		**112,154**	196,876
Net increase in cash and cash equivalents		**36,080**	68,243
Cash and cash equivalents at the beginning of the year		**128,020**	59,777
Cash and cash equivalents at end of year	14	**164,100**	128,020

The company has accounted for the revaluation of property, plant and equipment through other comprehensive income as a revaluation reserve and an increase in tangible fixed assets of £159,000,000 at 30 September 2025, with a further uplift of £55,000,000 recognised at 31 March 2026. This is a non-cash transaction (refer to note 6 for details).

Cash relating to the issuance of share capital of £150,000,000 on 16 February 2026 was received directly from the shareholders of Daiwater Investment Limited, the ultimate holding and controlling company in the United Kingdom

Dividends amounting to £31,000,000 were paid directly to the shareholders of Daiwater Investment Limited, the ultimate holding and controlling company in the United Kingdom, on 26 March 2026. Dividends amounting to £3,500,000 were paid directly to the company's intermediate parent company, Affinity Water Holdco Finance Limited on the same day.

The notes on pages 155 to 204 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 certain classes of property, plant and equipment measured at fair value through other comprehensive income, 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.

Going concern
The directors 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 77 to 80, as well as consideration of the company's budgeted cash flows, short and long term budget, ability to generate future revenues, covenant compliance and available debt facilities.

The company has significant debt maturities (£102,676,000) and inflation swap maturities (c.£95,000,000) in July 2026. The directors have assessed existing cash balances, available undrawn facilities and budgeted cash flows and are satisfied that there is sufficient liquidity to meet these liabilities as they fall due. The directors have also taken account of the £50,000,000 debt issuance which took place after the reporting period on 28 May 2026 (see page 185). Whilst this issuance improves liquidity in the going concern period, it did not materially change the outcome of the going concern assessment.

To assess a severe but plausible downside scenario, the Directors have considered a base case scenario that reflects the current market conditions in the economy and have applied a downside scenario that captures the potential financial impact of principal risks occurring. The downside scenario assumes a £54,000,000 increase in costs (15% increase in total expenditure for Wholesale Appointed business – excludes non appointed and Retail). These may arise from regulatory fines and legal costs, weather-related incidents, water quality issues and unfunded costs excluded from Ofwat's price control framework.

Based on these budgets and the ability to absorb the impact of the severe but plausible downside scenario, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

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. Details of the company's cash and short-term investment are included in the statement of financial position on page 152, 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 other events after the reporting period significantly affecting liquidity headroom or budgeted 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
The company has applied the following standard and amendment for the first time for its annual reporting period commencing 1 April 2025:

- Lack of Exchangeability – Amendments to IAS 21.

The amendment listed above did not have any material impact on the amounts recognised in prior and current periods and are not expected to significantly affect the future periods.

Notes to the financial statements
Accounting policies continued

New standards, amendments and interpretations not yet adopted
On 9 April 2024, the International Accounting Standards Board ('IASB') issued IFRS 18: Presentation and Disclosure in Financial Statements' ('IFRS 18'). The key new concepts introduced in IFRS 18 relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements, known as management-defined performance measures; and
- enhanced principles on aggregation and disaggregation, which apply to the primary financial statements and notes in general.

IFRS 18 does not impact the recognition or measurement of items in the financial statements. The new standard is effective for accounting periods commencing on or after 1 January 2027. The company will consider the requirements of the new standard in the period up to implementation. Based on the group's initial assessment, IFRS 18 is not expected to have a material impact on the company's financial reporting, with any impact expected to be limited to the presentation and disclosure of financial statement information.

At the balance sheet date there are no other new standards, amendments, or interpretations, that are not yet effective and have not been early adopted by the company, which are expected to have a material impact on future years.

Change in accounting policy
From 1 April 2025, the company has adopted a policy of revaluing certain classes of fixed assets to market value, in accordance with the fair value provisions of IAS 16: 'Property, plant and equipment' ('IAS 16'). This is a change from the previous policy, under which all fixed assets were stated at historic cost.

This revised approach provides more relevant and reliable information by reflecting current market conditions and providing a more accurate reflection of asset values, thereby improving comparability and relevance for users of the financial statements.

The initial independent external valuation was performed in September 2025, with a further valuation undertaken in March 2026. Going forward, the entity's approach will be to perform a formal external valuation at least every three years. At each reporting date, management will carry out an assessment of the impact of macroeconomic factors and consider whether there have been significant changes in the fair value of the assets. Where this assessment indicates material volatility or movements in fair value, a full revaluation will be performed at the reporting date, in advance of the three year cycle, to ensure that carrying values continue to reflect current economic conditions.

As determined by IAS 8: 'Accounting policies, changes in accounting estimates and errors' ('IAS 8') paragraph 17, there is no requirement to restate the prior year with the revaluation of property, plant and equipment and therefore this accounting policy is applied prospectively.

Change in accounting policy – quantified impact

	30 September 2025 £000	31 March 2026 £000	Total £000
Increase in net book value of property, plant and equipment	159,000	**55,000**	214,000
Revaluation surplus recognised in revaluation reserve	159,000	**55,000**	214,000
Deferred tax recognised (debit to revaluation reserve/credit to deferred tax liabilities)	38,821	**13,750**	52,571
Incremental depreciation arising on revalued assets	3,715	**–**	3,715

Notes to the financial statements

Accounting policies continued

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.

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.

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 and lifetime expected credit losses in accordance with IFRS 9 using the simplified approach (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 decrease or increase accordingly by £428,000 (2025: £615,000).

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 by 2050 in line with government target. 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 2026 is £2,256,752,000 (2025: £1,936,893,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £1,619,135,000 (2025: £1,362,290,000) and if they were 10% longer, the carrying amount would be £2,428,703,000 (2025: £2,043,434,000).

Based on the current useful lives, the carrying amount of intangible assets, excluding goodwill, at 31 March 2026 is £18,943,000 (2025: £16,518,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £17,658,000 (2025: £15,305,000) and if they were 10% longer, the carrying amount would be £20,228,000 (2025: £17,730,000).

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.

Notes to the financial statements
Accounting policies continued

Revaluation of assets

The assets revalued are held under a revaluation model. The fair value is determined with the support of an independent third party using an income approach, which uses discounted cashflow modelling to calculate a valuation range for the Enterprise Value ('EV') of Affinity Water Limited. Management concludes on the appropriate EV to be used from within this range using their judgement. The adjusted EV is then allocated against asset classes which contribute to the operational function of the business, i.e. operational structures, fixed plant, potable water distribution mains and raw water pipes, to estimate their fair value. This represents a level 3 fair value measurement since it is derived from valuation techniques that include inputs not based on observable market data.

Estimates are made in respect of the key assumptions applied in the valuation model. The discount rate applied of 6.60%-6.70% was determined as an appropriate level of weighted average cost of capital as at the valuation dates.

The key inputs into the valuation model are the discount rate and inflation, where a 0.10% movement in the discount rate would amount to approximately £65,000,000 increase or decrease in property, plant and equipment. In respect to inflation, a 0.10% movement results in an impact of £50,000,000 on the property, plant and equipment balance. See note 6 for the revaluation in the period and total net book value of tangible assets held as at the period end. The key judgements inherent within the valuation methodology are the selection of the appropriate point within the range of EVs calculated by the third party valuation expert, and the attribution of the EV to relevant assets. The selection within the range is undertaken with due consideration of the regulatory capital value of the assets. Further information on the revaluation of property, plant and equipment is set out in note 6.

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: 'Revenue from Contracts with Customers' ('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.

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.

Notes to the financial statements
Accounting policies continued

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. 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 2025/26 as a result of this review.

The company established a Green Finance Framework during 2024/25 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/aboutus/investors/library**.

Notes to the financial statements continued

1. Revenue

1.1 Disaggregation of revenue from contracts with customers

	2026 £000	2025 £000
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**104,875**	92,625
Measured supplies	**252,176**	200,398
Non-household wholesale revenue	**73,755**	64,517
Connection charges	**703**	627
	431,509	358,167
Timing of revenue recognition – over time		
Requisitioned mains/extensions	**423**	437
Diversions	**4,448**	3,010
Infrastructure charges	**962**	908
New connections	**646**	639
Other	**291**	434
	6,770	5,428
	438,279	363,595

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:

	2026 £000	2025 £000
Net trade receivables	**54,881**	43,230
Contract assets		
Unbilled accrual for metered customers – household customers	**64,765**	52,909
Unbilled accrual for metered customers – non-household customers	**6,773**	6,480
Contract liabilities		
Payments received in advance – household water supplies	**84,663**	61,983
Deferred income – other	**540**	539
Deferred grants and contributions	**364,314**	348,948
Payments received in advance – grants and contributions	**15,463**	10,830

'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.

Notes to the financial statements continued

1. Revenue continued

1.2 Assets and liabilities related to contracts with customers continued

Significant changes in contract assets and liabilities

Up to 31 March 2026, the company had been reimbursed £163,729,000 (2025: £163,810,000) 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, £7,169,716 (2025: £5,405,000) 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 2026, £1,424,140 (2025: £4,335,583) of payments received were included in payments in advance – grants and contributions.

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.

Notes to the financial statements continued

1. Revenue continued

1.2 Assets and liabilities related to contracts with customers continued

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:

	2026 £000	2025 £000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Payments received in advance – household water supplies	**61,983**	54,306
Deferred income – other	**539**	496
Deferred grants and contributions	**6,770**	5,428
Payments received in advance – grants and contributions	**139**	271
Revenue recognised from performance obligations satisfied in previous years		
Unbilled accrual for metered customers – household customers	**1,049**	286

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 2026, £364,314,000 (2025: £348,948,000) of grants and contributions is expected to be derived from performance obligations which were unsatisfied at the end of the reporting year.

Notes to the financial statements continued

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:

	2026 £000	2025 £000
Staff costs (note 3.1)	**72,586**	66,769
Energy costs	**45,207**	49,227
Profit on disposal of property, plant and equipment	**(2,069)**	(2,273)
Loss on disposal of infrastructure assets	**6,290**	502
Purchase of bulk water and water supplied under statutory entitlement	**16,751**	14,441
Water abstraction charges	**7,018**	6,267
Business rates	**13,148**	12,973
Chargeable services direct (income)/expenditure	**(325)**	102
Depreciation of infrastructure assets (note 6)	**16,142**	15,167
Depreciation of other property, plant and equipment (note 6)	**73,317**	62,004
Depreciation of right-of-use assets (note 7)	**3,306**	2,501
Amortisation of intangible assets (note 8)	**4,967**	7,479
Impairment of trade receivables and contract assets (note 12)	**6,344**	9,618
Chemicals and gases	**8,354**	7,076
Computer and telephone	**10,143**	9,055
Fees and fines	**10,115**	9,918*
Infrastructure renewals expenditure	**21,023**	19,672
Insurance	**8,745**	7,673
Materials equipment and supplies	**10,985**	10,025*
Legal and professional	**7,455**	7,034
Subcontracting	**53,512**	44,534*
Vehicle costs	**2,867**	3,697
Research and development	**168**	204
Short-term lease rentals	**–**	5
Low-value lease rentals	**81**	84
Auditors' remuneration (note 2.3)	**757**	814
Cost of inventories used	**2,989**	1,915

*In the prior year, a presentational reclassification has been made to incorporate additional items within expense categories above based on their nature and to reclassify certain expenses to better reflect the substance of the underlying transactions. This has resulted in an increase in subcontractor charges by £15,125,000, increase in Materials equipment and supplies by £3,553,000 and a decrease in Fees and fines by £435,000. These reclassifications had no impact on total cost of sales or administrative expenses.

2.2 Other operating income

	2026 £000	2025 £000
Timing of revenue recognition – at a point in time		
Commission and rentals	**21,033**	20,168

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).

Notes to the financial statements continued

2. Operating profit continued

2.3 Auditors' remuneration

During the year the company obtained the following services from its Auditors and its associates:

	2026 £000	2025 £000
Fees payable to the company's Auditors and its associates for the audit of the financial statements	**498**	480
Fees payable to the company's Auditors and its associates for other services:		
Audit of the company's associates and subsidiaries	**90**	87
Audit-related assurance services		
– regulatory reporting	**102**	98
– Thames Water and Anglian Water annual returns	**9**	9
– audit related assurance service – other	**57**	55
Other non-audit services	**1**	85
Total Auditors' remuneration	**757**	814

3. Employees

3.1 Employee benefit expense (including Executive directors)

	2026 £000	2025 £000
Wages and salaries	**88,476**	82,213
Social security costs	**10,471**	8,299
Other pension costs	**8,398**	8,209
Staff costs	**107,345**	98,721
Staff costs capitalised	**(34,759)**	(31,952)
Staff costs recognised in the income statement	**72,586**	66,769

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	2026 Number	2025 Number
Operations	**995**	950
Customer service	**278**	265
Administration	**279**	247
	1,552	1,462

Notes to the financial statements continued

3. Employees continued

3.3 Directors' remuneration

Directors' emoluments were as follows:

	2026 £000	2025 £000
Aggregate emoluments	**1,797**	2,190

Aggregate amounts receivable under long-term incentive schemes (not share incentives) were £88,000 (2025: £307,000), not included within aggregate emoluments above.

The amount of £88,000 relates to Adam Stephens regarding the 2025/26 LTIP scheme which vested on 31 March 2026. This amount will be paid in three equal instalments in July 2026, July 2027 and July 2028. A prior year amount of £56,000 receivable by Adam Stephens related to the 2024/25 LTIP scheme which vested on 31 March 2025, with the remaining prior year amount of £251,000 payable to Keith Haslett.

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 Global Investors on behalf of the Allianz Group, CVC 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.

3.4 Highest paid director

The highest paid director's emoluments were as follows:

	2026 £000	2025 £000
Aggregate emoluments	**753**	1,302

Aggregate amounts receivable under long-term incentive schemes (not share incentives) were £nil (2025: £251,000), not included within aggregate emoluments.

The company made contributions of £nil to a pension plan in respect of the highest paid director's qualifying services during the year (2025: £24,000). 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 114 to 132.

Notes to the financial statements continued

4. Finance income and costs

	2026 £000	2025 £000
Finance income:		
Bank interest income	**7,721**	2,014
Net interest receivable on RPI linked inflation swap	**5,954**	6,200
Net interest receivable on CPI linked inflation swap	**5,928**	6,104
Net income from post-employment benefits	**2,861**	2,318
	22,464	16,636
Finance costs:		
Interest payable on borrowings held at amortised cost from parent company	**(160)**	(165)
Interest payable on borrowings held at amortised cost from subsidiary undertakings	**(52,528)**	(40,497)
Accretion payable in respect of interest on loans from subsidiary undertakings	**(25,443)**	(22,331)
Accretion payable on financial instrument	**(20,906)**	(18,234)
Interest payable on lease liabilities	**(332)**	(210)
Other	**(2,288)**	(2,108)
	(101,657)	(83,545)
Finance costs capitalised	**7,062**	5,290
Finance costs expensed	**(94,595)**	(78,255)
Fair value loss on financial instruments:		
Fair value (loss)/gain on inflation swaps	**(11,148)**	14,259
Fair value gain/(loss) on interest swaps	**846**	(3,524)
	(10,302)	10,735
Net finance costs	**(82,433)**	(50,884)

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 3.70% (2025: 3.19%).

5. Income tax expense

5.1 Income tax expense included in the income statement

	2026 £000	2025 £000
Current tax:		
– UK corporation tax on losses for the year	**–**	–
Total current tax	**–**	–
Deferred tax:		
– Origination and reversal of temporary differences	**(4,328)**	(2,135)
– Impact of change in tax rate	**–**	1,171
– Adjustment in respect of prior years	**(204)**	384
Total deferred tax	**(4,532)**	(580)
Income tax charge	**(4,532)**	(580)

Notes to the financial statements continued

5. Income tax expense continued

5.1 Income tax expense included in the income statement continued

Tax charge assessed for the year is higher (2025: tax charge is higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2026 of 25% (2025: 25%). The differences are explained below:

	2026 £000	2025 £000
Loss before tax	**(1,689)**	(16,225)
Tax calculated at the standard rate of tax in the UK of 25% (2025: 25%)	**422**	4,056
Tax effects of:		
– Adjustments in respect of prior years	**(204)**	384
– Expenses not deductible for tax purposes	**(4,750)**	(6,191)
– Impact of change in tax rate on deferred tax	**–**	1,171
Income tax expense	**(4,532)**	(580)

5.2 Income tax expense included in the statement of comprehensive income

	2026 £000	2025 £000
Deferred tax:		
- Origination and reversal of temporary differences	**(53,428)**	40
	(53,428)	40

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 substantively 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 (2025: 25%).

In July 2023, the UK enacted legislation to implement the Organisation for Economic Co-operation and Development (OECD) Pillar Two global minimum tax rules. These rules apply to multinational groups with annual consolidated revenue exceeding €750,000,000.

The group does not currently exceed this threshold and is therefore not within the scope of the Pillar Two rules. The group will continue to monitor its position in future periods if its circumstances change.

The group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Notes to the financial statements continued

5. Income tax (expense)/credit continued

5.4 Reconciliation of current and deferred tax charge

	2026 £000	2026 %	2025 £000	2025 %
Loss before tax	**1,689**		16,225	
Tax calculated at the standard UK tax rate of 25% (2025: 25%)	**422**	**25%**	4,056	25%
Tax effect of:				
Depreciation in excess of capital allowances	**(2,952)**	**(174%)**	(4,442)	(27%)
Pension movements	**594**	**35%**	722	4%
Provision movements	**408**	**24%**	(120)	(1%)
Other expenses not deductible for tax purposes	**1,528**	**90%**	(216)	(1%)
Reported current tax charge and effective rate	**–**	**0%**	–	0%
Depreciation in excess of capital allowances	**(3,326)**	**(196%)**	(1,531)	(9%)
Provision movements	**(586)**	**(35%)**	(3)	0%
Pension movements	**(416)**	**(25%)**	(601)	(4%)
Impact of change in tax rate	**–**	**0%**	1,171	7%
Adjustments to tax charge in respect of prior years	**(204)**	**(12%)**	384	2%
Reported deferred tax charge and effective rate	**(4,532)**	**(268%)**	(580)	(4%)
Total tax charge and effective rate	**(4,532)**	**(268%)**	(580)	(4%)

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 2025/26 the amount written off for tax purposes was lower than the depreciation in the accounts, resulting in a higher tax charge for the year. This is principally driven by depreciation on non-qualifying fixed assets which do not attract capital allowances.

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 2025/26 the amount paid into the pension funds was lower than the amount charged in the accounts, resulting in a higher tax charge for the year.

Utilisation of provisions

Some provisions charged in the accounts are not deductible until the amounts provided are actually paid. A voluntary disclosure was made to HMRC in previous years in respect of Off Payroll Working/IR35. Payments in respect of this liability were made in the current and prior years, however no tax deduction was claimed pending the conclusion of the settlement. Following agreement of the settlement with HMRC during the year ended 31 March 2026, a tax deduction has been recognised in the current year in respect of these payments, resulting in a reduction in the tax charge for the year.

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 certain legal fees on land disposals and other sundry disallowable items.

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 2025 resulted in a higher tax charge, primarily as a result of adjustments to the deferred tax position.

Revaluation of property, plant and equipment

As disclosed in the financial statements, the company adopted a policy of revaluing certain classes of property, plant and equipment to fair value during the year in accordance with IAS 16. A deferred tax liability of £53,500,000 was recognised at 25% on the revaluation uplift of £214,000,000, recognised directly in other comprehensive income. Following the transfer of deferred tax of £929,000 in respect of excess depreciation of £3,715,000 on the revalued assets, the net deferred tax liability on revaluation at 31 March 2026 is £52,571,000.

Notes to the financial statements continued

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 £000	Total £000
Cost or deemed cost							
At 1 April 2025	**346,640**	**1,092,869**	**29,509**	**1,135,268**	**197,797**	**234,033**	**3,036,116**
Revaluation gain	27,373	156,654	4,083	93,943	–	–	282,053
Additions	–	–	–	–	–	201,278	201,278
Transfers	17,696	43,254	–	95,507	46,023	(202,480)	–
Disposals	(893)	(539)	(149)	(35,774)	(2,679)	–	(40,034)
At 31 March 2026	**390,816**	**1,292,238**	**33,443**	**1,288,944**	**241,141**	**232,831**	**3,479,413**
Accumulated depreciation							
At 1 April 2025	(120,383)	(130,134)	(4,048)	(768,946)	(75,712)	–	(1,099,223)
Revaluation gain	(12,158)	(18,928)	(569)	(36,398)	–	–	(68,053)
Charge for the year	(3,270)	(15,753)	(389)	(54,935)	(15,111)	–	(89,458)
Disposals	881	180	17	31,539	1,456	–	34,073
At 31 March 2026	**(134,930)**	**(164,635)**	**(4,989)**	**(828,740)**	**(89,367)**	**–**	**(1,222,661)**
Net book amount							
At 1 April 2025	226,257	962,735	25,461	366,322	122,085	234,033	1,936,893
Movement in year	29,629	164,868	2,993	93,882	29,689	(1,202)	319,859
At 31 March 2026	**255,886**	**1,127,603**	**28,454**	**460,204**	**151,774**	**232,831**	**2,256,752**

All land and buildings are held as freehold.

Revaluation – property, plant and equipment

The company's operational structures, potable water distribution mains, raw water pipes and fixed plant were revalued as at 30 September 2025 and 31 March 2026 using the approach outlined in note A3. These valuations are performed on a consistent basis in accordance with FRS 101 which requires that assets subject to a policy of revaluation should be carried at their fair value less any subsequent accumulated depreciation and accumulated impairment losses. FRS 101 allows, where market based evidence of fair value is not available due to the specialised nature of the items of property plant and equipment, an entity to estimate fair value using an income approach.

As at 30 September 2026, a revaluation gain of £159,000,000 was recognised and an additional uplift of £55,000,000 has been included for the valuation carried out at 31 March 2026. The directors note that the revaluation reserve position may be subject to movements in future periods as key discounted cashflow ('DCF') model assumptions are revised.

White Horse Reservoir - strategic water resource project

The company is a participant in the development of the White Horse Reservoir strategic water resource project alongside Thames Water and Southern Water and is entitled to a 15% share of the water outputs. As at 31 March 2026, expenditure of £39,498,000 (31 March 2025: £29,517,000), representing the company's share of development costs, has been incurred. At the reporting date, these costs are included within assets under construction.

The expenditure is directly attributable to the development of the reservoir and the company's participation as a sponsor, from which the company is expected to derive future economic benefits. This is supported by the regulatory framework under which infrastructure investment is recovered through revenues and customer charges over time, consistent with the treatment of similar assets within the regulated asset base, once operational. The accounting treatment will be reassessed as project development progresses and contractual arrangements become clearer, which may result in a change in asset classification in future periods.

Notes to the financial statements continued

6. Property, plant and equipment continued

Property, plant and equipment continued

Analysis of the net book value of the revalued tangible assets is as follows:

	Operational structures		Potable water distribution mains		Raw water pipes		Fixed plant	
	Valuation £000	Historical cost basis £000	Valuation £000	Historical cost basis £000	Valuation £000	Historical cost basis £000	Valuation £000	Historical cost basis £000
Valuation/cost at 31 March 2026	264,490	237,117	1,292,238	1,135,584	33,443	29,360	1,288,945	1,195,002
Aggregate depreciation at 31 March 2026	(131,347)	(118,953)	(164,635)	(145,167)	(4,989)	(4,400)	(828,741)	(789,422)
Net book value at 31 March 2026	**133,143**	**118,164**	**1,127,603**	**990,417**	**28,454**	**24,960**	**460,204**	**405,580**

7. Right-of-use assets

	Vehicles £000	Total £000
Cost		
At 1 April 2025	**15,301**	**15,301**
Additions	6,719	**6,719**
Disposals	(2,375)	**(2,375)**
At 31 March 2026	**19,645**	**19,645**
Accumulated depreciation		
At 1 April 2025	**(8,721)**	**(8,721)**
Charge for the year	(3,306)	**(3,306)**
Disposals	2,362	**2,362**
At 31 March 2026	**(9,665)**	**(9,665)**
Net book amount		
At 1 April 2025	**6,580**	**6,580**
Movement in year	3,400	**3,400**
At 31 March 2026	**9,980**	**9,980**

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.

Notes to the financial statements continued

7. Right-of-use assets continued

Leasing arrangements continued

Minimum lease payments receivable on leases are as follows:

	2026 £000	2025 £000
Within 1 year	**423**	463
Between 1 and 2 years	**412**	423
Between 2 and 3 years	**368**	412
Between 3 and 4 years	**309**	368
Between 4 and 5 years	**216**	309
Later than 5 years	**236**	280
	1,964	2,255

Properties are held at cost in line with the property, plant and equipment policy provided in note A3.

8. Intangible assets

	Goodwill £000	Software £000	Total £000
Cost			
At 1 April 2025	**14,961**	**101,834**	**116,795**
Additions	–	7,736	**7,736**
Disposals	–	(18,843)	**(18,843)**
At 31 March 2026	**14,961**	**90,727**	**105,688**
Accumulated amortisation			
At 1 April 2025	**–**	**(85,316)**	**(85,316)**
Charge for the year	–	(4,967)	**(4,967)**
Disposals	–	18,499	**18,499**
At 31 March 2026	**–**	**(71,784)**	**(71,784)**
Net book amount			
At 1 April 2025	**14,961**	**16,518**	**31,479**
Movement in year	–	2,425	2,425
At 31 March 2026	**14,961**	**18,943**	**33,904**

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.

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 2026. 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 £12,519,000 (2025: £10,454,000) of capitalised intangible assets under construction, which is not amortised. £5,671,000 (2025: £1,483,000) of intangible projects under construction were completed in the year, and amortisation was charged from the point in time that the software became fit for purpose and ready to use.

There were costs amounting to £3,884,000 (2025: £nil) within additions relating to a Customer Transformation project. There are no other individually material computer software development costs in the years ended 31 March 2026.

Notes to the financial statements continued

9. Investments

	2026 £000	2025 £000
Non-current assets		
Investments in subsidiaries (refer to note A6)	**100**	100
Current assets		
Short-term deposits	**129,141**	80,795

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 from when deposit is entered into per our treasury policy.

Increase reflects higher year-end cash deposits, driven by the £150,000,000 equity injection received in March 2026 and normal timing of cash inflows and outflows.

10. Retirement benefit surplus

Defined benefit section

The net pension income before taxation recognised in the income statement in respect of the defined benefit plan is:

	2026 £000	2025 £000
Current service cost of the Affinity Water Pension Plan	**(1,129)**	(1,583)
Administration costs	**(495)**	–
Pension expense charged to operating profit	**(1,624)**	(1,583)
Net pension interest income credited to finance income (note 4)	**2,861**	2,318
Net pension income charged before taxation	**1,237**	735

The opening and closing retirement benefit surpluses included in the statement of financial position are summarised as follows:

	2026 £000	2025 £000
At 1 April	**49,746**	47,505
Principal employer contributions	**427**	1,667
Current service cost (per above)	**(1,129)**	(1,583)
Administration costs	**(495)**	-
Net interest income	**2,861**	2,318
Net re-measurement gain/(loss)	**3,430**	(161)
At 31 March	**54,840**	49,746

Re-measurement gains and losses are recognised directly in the statement of comprehensive income and are summarised as follows:

	2026 £000	2025 £000
Re-measurement losses on plan assets	**(95)**	(35,193)
Re-measurement gains on plan liabilities	**3,525**	35,032
	3,430	(161)

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

	2026 £000	2025 £000
Non-current assets:		
Fair value of energy swaps	**1,646**	21
Current assets:		
Fair value of energy swaps	**5,146**	955
	6,792	976
Non-current liabilities:		
Fair value and accretion of RPI linked inflation swaps	**–**	80,258
Fair value and accretion of CPI linked inflation swaps	**69,883**	48,960
Fair value of floating interest swap	**2,677**	3,524
Current liabilities:		
Fair value and accretion of RPI linked inflation swaps	**91,383**	–
Fair value of energy swaps	**–**	253
	163,943	132,995

Affinity Water has hedged wholesale energy prices since 2021 and we continue to assess requirements on an annual basis.

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.

A series of RPI linked inflation swaps with a total nominal value of £210,000,000, with a date of maturity of July 2026, were entered into between August 2018 and October 2020. A series of CPI linked inflation swaps with a total nominal value of £250,000,000, were entered into between March 2020 and June 2020. Of these swaps, £100,000,000 are maturing in March 2030 and £150,000,000 are maturing in March 2036.

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’ (‘IFRS 13’).

As part of the Class A fixed rate £350,000,000 bond issuance in March 2025 (maturing in September 2040), a tender offer was made against the £250,000,000 bond maturing in July 2026. A floating rate swap with a nominal value of £280,000,000, which is linked to the maturity of the Class A fixed rate £350,000,000 bond (maturing September 2040) was also taken out in March 2025.

Notes to the financial statements continued

12. Trade and other receivables

	2026 £000	2025 £000
Current:		
Trade receivables	**90,758**	80,998
Less: loss allowance for trade receivables	**(35,877)**	(37,768)
	54,881	43,230
Amounts owed by group undertakings	**15**	12
Interest receivable from external parties	**7,497**	7,546
Other receivables	**5,610**	5,594
Unbilled accrual for metered customers	**71,536**	59,389
Prepayments and accrued income	**10,920**	19,418
	150,459	135,189

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 £6,590,000 (2025: £5,661,000) and a corresponding reduction in the loss allowance for trade receivables.

The carrying amounts of trade and other receivables approximate to their fair value.

The other receivables balance primarily relates to VAT receivables.

During the year, management extended the expected credit loss (ECL) modelling horizon from four to six years following the development of enhanced customer level reporting, which for the first time provides reliable and analysable evidence of recoveries occurring beyond four years. The enhanced data demonstrates that cash continues to be collected in years five and six, including on balances previously assumed to be fully irrecoverable under the four year model.

The revised six-year horizon better reflects the full observable recovery lifecycle of receivables and aligns the ECL estimate with the company's operational six-year write-off policy. The underlying IFRS 9 methodology, segmentation and calculation mechanics remain unchanged. The update therefore represents a change in accounting estimate arising from new information and has been applied prospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

As a result of extending the modelling horizon to six years, and before the application of management overlays, the loss allowance for trade receivables decreased by £3,200,000 compared with the provision that would have been recognised under the prior four year horizon.

Macroeconomic uncertainty has been considered separately from the extension of the recovery horizon and, where appropriate, addressed through targeted overlays rather than adjustments to historical recovery assumptions.

Measured income accrual

The company records an accrual for measured consumption of water that has not yet been billed. 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 2025 included a measured income accrual of £53,789,000. The value of billing recognised in the year ended 31 March 2026 for consumption in the prior year was £54,838,000.

This resulted in an increase of £1,049,000 in the current year's revenue due to the under-estimation of the prior year's revenue.

Notes to the financial statements continued

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	
	2026 £000	2025 £000	2026 £000	2025 £000	2026 £000	2025 £000
At 1 April	**37,768**	37,100	**300**	220	**38,068**	37,320
Provision for receivables impairment charged to income statement	**6,475**	9,538	**(131)**	80	**6,344**	9,618
Sale of trade receivables that were fully provided for	**(6,590)**	(5,661)	**–**	–	**(6,590)**	(5,661)
Receivables written off during the year as uncollectible	**(1,776)**	(3,209)	**–**	–	**(1,776)**	(3,209)
At 31 March	**35,877**	37,768	**169**	300	**36,046**	38,068

See note A4 for details of the nature and the calculation of the loss allowance.

In the current year, a charge of £6,344,000 (2025: £9,618,000) was recorded in the income statement. The charge includes the impact of economic conditions such as cost of living and inflation in addition to cash collection patterns. This includes reversal of revenue of £6,035,000 (2025: £5,014,000) for customers that have been through the full debt recovery process.

We have increased our focus on customer debt recovery, with additional internal and external resources deployed to enhance our collection efforts.

12.2 Ageing analysis of trade receivables

The aged analysis of receivables at the reporting date is as follows:

	2026 £000	2025 £000
Aged less than one year	**44,253**	35,159
Aged between one year and two years	**16,187**	16,043
Aged greater than two years	**30,318**	29,796
	90,758	80,998

13. Inventories

	2026 £000	2025 £000
Raw materials and consumables	**5,406**	5,794

Inventories are stated after provisions for impairment of £50,000 (2025: £50,000).

14. Cash and cash equivalents

	2026 £000	2025 £000
Cash at bank and in hand	**36,667**	48,020
Term deposits	**127,433**	80,000
	164,100	128,020

The carrying amounts of cash and cash equivalents approximate to their fair value.

Notes to the financial statements continued

15. Share capital and other reserves

	Number of shares 000	Ordinary shares £000	Deferred shares £000	Share premium £000	Capital contribution reserve £000	Revaluation reserve £000	Accumulated losses	Total £000
Share capital/ reserves at 1 April 2024	305,058	30,506	–	1,400	30,150	–	(183,613)	(121,557)
Opening share capital/ reserves at 1 April 2025	305,058	30,506	–	1,400	30,150	–	(200,539)	(138,483)
Loss for the financial year	–	–	–	–	–	–	(6,221)	(6,221)
Re-measurements of post-employment benefit assets	–	–	–	–	–	–	3,430	3,430
Deferred tax charge on post-employment benefit assets	–	–	–	–	–	–	(857)	(857)
Gains on revaluation of assets	–	–	–	–	–	214,000	–	214,000
Deferred tax on revaluation gains	–	–	–	–	–	(52,571)	–	(52,571)
Issue of ordinary shares	1,500,000	150,000	–	–	–	–	–	150,000
Capital reduction	–	(180,325)	–	–	–	–	180,325	–
Cancellation of share premium	–	–	–	(1,400)	–	–	1,400	–
Transfer of capital contribution reserve	–	–	–	–	(30,150)	–	30,150	–
Issue of deferred shares	107,500	–	107,500	–	–	(107,500)	–	–
Cancellation of deferred shares	(107,500)	–	(107,500)	–	–	–	107,500	–
Transfer of depreciation revaluation	–	–	–	–	–	(3,715)	3,715	–
Dividends paid	–	–		–	–	–	(34,500)	(34,500)
Closing share capital/reserves at 31 March 2026	**1,805,058**	**181**	**–**	**–**	**–**	**50,214**	**84,403**	**134,798**

All shares rank pari passu in all respects.

The company allotted 1,500,000,000 ordinary shares of £0.10 on 16 February 2026 to its immediate parent company, Affinity Water Holdings Limited. These shares were fully paid in cash, following the issuance of an Equity Call Notice in January 2026 under the legally binding Equity Commitment Letter, which triggered a £150,000,000 shareholder equity injection. The funds were received in February 2026.

The revaluation reserve comprises the cumulative net unrealised gains arising from the revaluation of property, plant and equipment to fair value.

On 25 February 2026, the directors approved a reduction of capital by reducing the total share capital issued at that date from £180,505,782.40 divided into 1,805,057,824 ordinary shares of £0.10 each to £180,505.78 divided into 1,805,057,824 ordinary shares of £0.0001 and cancelling £1,400,000 within the share premium account. The distributable capital contribution reserve was also transferred to retained earnings on the same day. The capital reductions became effective on 26 February 2026.

On 27 February 2026, in accordance with section 551 of the Companies Act 2006, the company capitalised the sum of £107,500,000 standing to the credit of its revaluation reserve; and applied in paying up in full 107,500,000 newly created deferred shares of £1.00 each. The deferred shares were cancelled on 2 March 2026 and resulted in £107,500,000 being transferred to retained earnings.

15.1. Dividends

	2026 £000	2025 £000
Interim dividend paid of 0.02p per share	**34,500**	–

During the year, the company paid interim dividends totalling £34,500,000 (£0.02 per share). The Board is not proposing to recommend the payment of a final dividend for the year (2025: £nil).

Notes to the financial statements continued

16. Trade and other payables

	2026 £000	2025 £000
Non-current		
Amounts falling due after more than one year		
Deferred grants and contributions	**26,848**	25,878
Amounts falling due after more than five years		
Deferred grants and contributions	**330,748**	316,548
	357,596	342,426
Current		
Amounts falling due within one year		
Trade payables	**33,359**	43,215
Amounts due to group undertakings	**776**	780
Interest payable to subsidiary companies	**9,745**	9,679
Commitment fees	**125**	85
Social security and other taxes	**2,476**	2,100
Other payables	**9,547**	13,246
Capital accruals	**44,526**	35,525
Deferred grants and contributions	**6,718**	6,522
Payments received in advance	**111,568**	84,529
Deferred income	**2,592**	2,817
Other accruals	**53,206**	47,173
	274,638	245,671
	632,234	588,097

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

	2026 £000	2025 £000
Borrowings measured at amortised cost:		
Non-current		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**–**	103,032
Loan from Affinity Water Finance PLC financed by bond issue	**1,494,784**	1,470,305
Financial liability relating to leasehold property	**18,749**	18,782
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
	1,517,117	1,595,703
Current		
Financial liability relating to leasehold property	**32**	128
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**102,768**	–
	102,800	128

Notes to the financial statements continued

17. Borrowings continued

Loan from Affinity Water Finance 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. The company repaid £147,324,000 of the bonds to Affinity Water Finance (2004) PLC during the prior year. The amount was paid to Affinity Water Finance (2004) PLC in March 2025.

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.

On 12 March 2025, Affinity Water Finance PLC issued £350,000,000 Class A Guaranteed Notes maturing in September 2040 with a coupon of 6.250%.

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 4.50%.

Financial liability relating to leasehold property

The Company recognises a secured financial liability arising from the sale and leaseback of its Hatfield head office, accounted for as a financing arrangement and measured at amortised cost using an effective interest rate of 7.81%, unwinding to the £1 option price payable in December 2045.

The Company has recognised the property in accordance with IAS 16: 'Property, Plant and Equipment'.

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 2026 is £1,386,919,000 (2025: £1,361,000,000). 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.

Notes to the financial statements continued

17. Borrowings continued

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.

18. Lease liabilities

	2026 £000	2025 £000
Non-current:		
Lease liabilities	**6,797**	4,412
Current:		
Lease liabilities	**3,435**	2,333

The following amounts in respect of leases are included within these financial statements:

	2026 £000	2025 £000
Depreciation charge of right-of-use assets (refer to note 7)	**3,306**	2,501
Interest expense on lease liabilities (refer to note 4)	**332**	210
Expense relating to short-term leases (refer to note 2.1)	**–**	5
Expense relating to leases of low-value assets (refer to note 2.1)	**81**	84
Principal elements of lease payments included within cash flows from financing activities	**3,218**	2,710
Interest payments included within cash flows from operating activities	**332**	210
Total cash outflow for leases in the statement of cash flows	**3,550**	2,920
Additions to right-of-use assets (refer to note 7)	**6,719**	4,032
Carrying amount of right-of-use assets (refer to note 7)	**9,980**	6,580

Notes to the financial statements continued

19. Deferred tax liabilities

19.1 Analysis of deferred tax assets and deferred tax liabilities

	2026 £000	2025 £000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**(11,708)**	(12,357)
– Deferred tax asset to be recovered within 12 months	**(73)**	(109)
	(11,781)	(12,466)
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than 12 months	**255,603**	198,328
Deferred tax liabilities - net	**243,822**	185,862

The gross movement on the deferred tax account is as follows:

	£000
At 1 April 2024	185,322
Impact of change in tax rate	(1,171)
Charged to the income statement	1,751
Credited to other comprehensive income	(40)
At 31 March 2025	185,862
Adjustment to prior year	**204**
Charged to the income statement	**4,328**
Charged to other comprehensive income	**53,428**
At 31 March 2026	**243,822**

The 'charged to the income statement' line above includes an adjustment of £204,000 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 within 12 months after the year-end.

Notes to the financial statements continued

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	Other £000	Total £000
At 1 April 2024	185,981	11,874	–	197,855
Impact of change in tax rate	(1,171)	–	–	(1,171)
Charged to the income statement	1,083	601	–	1,684
Credited to other comprehensive income	–	(40)	–	(40)
At 31 March 2025	185,893	12,435	–	198,328
Adjustment to prior year	**105**	**–**	**–**	**105**
Charged to the income statement	**3,326**	**416**	**–**	**3,742**
Charged to other comprehensive income	**–**	**857**	**52,571**	**53,428**
At 31 March 2026	**189,324**	**13,708**	**52,571**	**255,603**

19.3 Deferred tax assets

	Provisions £000	Other £000	Total £000
At 1 April 2024	(1,817)	(10,716)	(12,533)
Charged to the income statement	67	–	67
At 31 March 2025	(1,750)	(10,716)	(12,466)
Prior year adjustment	**99**	**–**	**99**
Charged to the income statement	**586**	**–**	**586**
At 31 March 2026	**(1,065)**	**(10,716)**	**(11,781)**

Notes to the financial statements continued

20. Provisions for other liabilities and charges

Non-current	Insurance £000	Other £000	Tax £000	Total £000
At 1 April 2024	2,803	670	–	3,473
Charged to the income statement	2,271	–	–	2,271
Utilised in the year	(3,067)	–	–	(3,067)
At 31 March 2025	2,007	670	–	2,677
Charged to the income statement	**2,720**	**–**	–	**2,720**
Utilised in the year	**(2,002)**	**–**	–	**(2,002)**
At 31 March 2026	**2,725**	**670**	**–**	**2,677**

Current	Insurance £000	Other £000	Tax £000	Total £000
At 1 April 2024	–	–	4,100	4,100
Credited to the income statement	–	–	(486)	(486)
Utilised in the year	–	–	(2,451)	(2,451)
At 31 March 2025	–	–	1,163	1,163
Charged/(credited) to the income statement	**–**	**700**	**(710)**	**(10)**
Utilised in the year			**(453)**	**(453)**
At 31 March 2026	**–**	**700**	**–**	**700**

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 £2,725,000 is presented as a non-current liability in the statement of financial position.

Tax provision

A tax provision of £4,100,000 was charged to the income statement and included within administrative expenses in the year to 31 March 2023. This provision represents an estimate for an outstanding liability related to a potential PAYE and National Insurance claim.

During the year ended 31 March 2025, an advance payment of £2,451,000 was made to HMRC on a voluntary basis and a provision of £486,000 was released. Subsequently, in the period ending 31 March 2026, a final settlement payment of £453,000 was made, and the remaining provision of £710,000 was released.

Other provisions

Other provisions of £1,370,000 (2025: £670,000) comprise:

1. £670,000 in respect of unfunded pension liabilities for a former Non-Executive Director. The pension-related provision is expected to be utilised by January 2051 and is therefore presented as a non-current liability in the statement of financial position.
2. £700,000 relating to a contribution to Independent Water Networks Limited (IWNL) for the installation of a connecting pipe between the two networks. This provision is presented as a current liability in the statement of financial position as it is expected to be settled in the next 12 months.

Notes to the financial statements continued

21. Notes to the statement of cash flows

21.1 Cash generated from operations

	2026 £000	2025 £000
Loss before tax	**(1,689)**	(16,225)
Adjustments for:		
Depreciation of property, plant and equipment (note 6)	**89,458**	77,171
Depreciation of right-of-use assets (note 7)	**3,306**	2,501
Amortisation of grants and contributions	**(6,770)**	(5,428)
Amortisation of intangible assets (note 8)	**4,967**	7,479
Profit on disposal of property, plant and equipment (note 2.1)	**(2,069)**	(2,273)
Loss on disposal of infrastructure assets (note 2.1)	**6,290**	502
Post-employment benefits	**1,195**	(83)
Net finance costs (note 4)	**82,433**	50,884
Net gain on energy swap	**(6,069)**	(1,426)
Changes in working capital		
– Inventories	**388**	(1,343)
– Trade and other receivables	**(13,573)**	(22,848)
– Trade and other payables		
– provision element	**256**	(3,734)
– other	**20,048**	33,094
Cash generated from operations	**178,171**	118,271

Changes in working capital – trade and other receivables of £(13,573,000) in the year (2025: £(22,848,000)) primarily relates to an increase in unbilled accrual for metered customers.

Changes in working capital – trade and payables – other of £20,048,000 in the year (2025: £33,094,000) primarily relates to an increase in payments received in advance.

Notes to the financial statements continued

21. Notes to the statement of cash flows continued

21.2 Reconciliation of liabilities arising from financing activities

	At 1 April 2025 £000	Cash flow £000	Non-cash flows £000	At 31 March 2026 £000
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**103,032**	**–**	**(264)**	**102,768**
Loan from Affinity Water Finance PLC financed by bond issue	**1,470,305**	**–**	**24,479**	**1,494,784**
Financial liability relating to leasehold property	**18,910**	**(129)**	**–**	**18,781**
Loan from intermediate parent company	**3,550**	**–**	**–**	**3,550**
Lease liabilities	**6,745**	**(3,218)**	**6,704**	**10,231**
Debenture stock	**34**	**–**	**–**	**34**
Total liabilities arising from financing activities	**1,602,576**	**(3,347)**	**30,919**	**1,630,148**

	At 1 April 2024 £000	Cash flow £000	Non-cash flows £000	At 31 March 2025 £000
Loan from Affinity Water Finance (2004) PLC financed by bond issue	251,395	(147,544)	(819)	103,032
Loan from Affinity Water Finance PLC financed by bond issue	1,104,506	347,130	18,669	1,470,305
Financial liability relating to leasehold property	–	–	18,910	18,910
Loan from intermediate parent company	3,550	–	–	3,550
Lease liabilities	7,317	(2,710)	2,138	6,745
Debenture stock	34	–	–	34
Total liabilities arising from financing activities	1,366,802	196,876	38,898	1,602,576

Non-cash flows relate to loan indexation, 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:

	2026 £000	2025 £000
Property, plant and equipment	**47,986**	23,003
	47,986	23,003

Capital commitments are based on contractual obligations and outstanding purchase orders. The increase during the year is principally attributable to new commitments entered into as part of the new AMP8 period.

Notes to the financial statements continued

22. Commitments continued

22.2 Commitments under operating leases

The company leases its vehicles 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.

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:

	2026 £000	2025 £000
No later than one year	**54**	54
Later than one year and no later than five years	**111**	111
	165	165

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 2026 (2025: £nil) and the company incurs no bad debt risk in relation to this service.

24. Events after the reporting period

On 28 May 2026, Affinity Water Limited's subsidiary, Affinity Water Finance PLC, issued a new £50,000,000 debt instrument in the form of a private placement. The proceeds from the private placement will be received in August 2026 and will incur an interest rate of 6.56%. The private placement was issued under Affinity Water Limited's WBS structure, matures in August 2041 and is Class A in nature.

There are no other post balance sheet events that require adjustment to or disclosure in the financial statements.

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.

Notes to the financial statements continued

25. Ultimate parent company and controlling party continued

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 Global Investors 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 Global Investors' 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. On 3 July 2024, CVC Capital Partners acquired an initial 60% interest in DIF Capital Partners, with DIF Capital Partners then being rebranded CVC DIF. CVC Capital Partners is not considered to have become an ultimate controller as a result of this transaction[1].

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 real estate. 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.

1 CVC Capital Partners acquired an initial 60% stake of DIF Capital Partners on 3 July 2024, with an additional 20% to be acquired shortly after 31 December 2026 and the final 20% to be acquired shortly after 31 December 2028.

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

Four asset categories, being operational structures, potable water distribution mains, raw water pipes and fixed plant, are stated at fair value less any subsequent accumulated depreciation and impairment losses. All other property, plant and equipment are held at historical cost less accumulated depreciation.

Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. However, any increase is recognised in profit or loss to the extent that it reverses a revaluation decrease previously recognised in the profit and loss account.

Losses arising on revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. Any excess is recognised in the profit and loss account.

The depreciation charge on revalued assets is recognised as an expense in the statement of profit or loss. The amount equal to the excess depreciation is transferred from the revaluation reserve to retained earnings.

In accordance with IAS 16 Property, Plant and Equipment, paragraph 34, where changes in the fair value of property, plant and equipment are not significant, management may revalue the assets every three to five years. At each reporting date, management assesses whether macroeconomic factors or other relevant indicators suggest a significant change in the fair value of the assets. If this assessment indicates material volatility in fair value, management will perform a full revaluation at the reporting date, ahead of the three or five year cycle.

Infrastructure assets comprise a network of mains and associated underground pipe-work. 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

Notes to the financial statements – appendices continued

A3. Material accounting policy information continued

Property, plant and equipment continued

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.

Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

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.

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 separately identifiable software assets controlled by the company are recognised as intangible assets only if they meet the criteria of IAS 38: 'Intangible Assets', being assets that are controlled by the company and expected to generate future economic benefits. 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 generally do not exceed five years, but will be considered on an individual basis based on the experience of use similar assets. 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.

Notes to the financial statements – appendices continued

A3. Material accounting policy information continued

Grants and contributions continued

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

Investments 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 expected credit losses, the company applies a provision matrix based on historical loss rates, adjusted for current and forward-looking economic conditions. Receivables are grouped based on shared credit risk characteristics, including the ageing profile.

The company applies the IFRS 9: 'Financial instruments' ('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 charge for the 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 charge is based on taxable profits for the year. Taxable profits 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.

Notes to the financial statements – appendices continued

A3. Material accounting policy information continued

Current and deferred tax continued

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.

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.

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.

Notes to the financial statements – appendices continued

A3. Material accounting policy information continued

Revenue recognition continued

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.

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 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 was terminated during the year. The company purchased the building and entered a sale and leaseback agreement. 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.

All 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.

Notes to the financial statements – appendices continued

A3. Material accounting policy information continued

Leases continued

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 2.25%, 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 as a lessor

The company does not currently recognise any investment properties on the balance sheet, as none meet the criteria for recognition under applicable accounting standards. However, the Company acts as a lessor under operating lease arrangements.

The 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.

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 sole Principal Employer, providing defined benefits based on final pensionable salary. The assets of the plan are held separately from those of the company.

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.

Notes to the financial statements – appendices continued

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 69 for further information on management of these risks). These policies have been updated during the year to reflect changes in our risk management approach.

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.

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 2026, the company had £474,241,000 (2025: £368,815,000) of available liquidity, which comprised £293,241,000 (2025: £208,815,000) of cash and term deposits and £181,000,000 (2025: £157,000,000) 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 £215,216,000 (2025: £202,545,000), 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:

	2026 £000	2025 £000
Floating rate:		
– Expiring within one year	**81,000**	57,000
– Expiring in more than one year	**100,000**	100,000
	181,000	157,000

The facilities expiring within one year comprise two standby facilities with two counterparties (2025: one counterparty) in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £49,000,000 (2025: £29,000,000), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £32,000,000 (2025: £28,000,000), 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 (2025: £60,000,000) provided by Barclays Bank PLC and £40,000,000 (2025: £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. These facilities were extended in June 2025, having a maturity date of July 2028, and use SONIA as the reference rate. Both contain embedded sustainability performance measures.

Notes to the financial statements – appendices continued

A4. Financial instruments and risk management continued

Liquidity risk 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 2026 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	**156,722**	**48,241**	**48,399**	**48,544**	**48,821**	**1,887,623**	**2,238,350**
Loan from intermediate parent	**160**	**160**	**160**	**160**	**160**	**4,507**	**5,307**
Financial liability relating to leasehold property	**1,519**	**1,565**	**1,612**	**1,660**	**1,710**	**32,084**	**40,150**
Lease liabilities	**3,668**	**3,146**	**2,456**	**1,238**	**343**	**–**	**10,851**
Total non-derivatives	**162,069**	**53,112**	**52,627**	**51,602**	**51,034**	**1,924,214**	**2,294,658**

At 31 March 2025 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	53,771	156,768	48,306	48,464	48,610	1,905,611	2,261,530
Loan from intermediate parent	160	160	160	160	160	4,507	5,307
Financial liability relating to leasehold property	1,618	1,519	1,565	1,612	1,660	33,794	41,768
Lease liabilities	2,487	2,077	1,561	934	124	–	7,183
Total non-derivatives	58,036	160,524	51,592	51,170	50,554	1,943,912	2,315,788

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 2026 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)	**85,003**	**–**	**–**	**–**	**–**	**–**	**85,003**
CPI linked inflation swaps net payment/ (receivable)	**(5,839)**	**(2,851)**	**(5,653)**	**(5,583)**	**(3,238)**	**92,794**	**69,630**
Floating interest swap	**410**	**262**	**262**	**262**	**262**	**2,486**	**3,944**
Total derivatives	**79,574**	**(2,589)**	**(5,391)**	**(5.321)**	**(2,976)**	**95,280**	**158,577**

At 31 March 2025 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)	(6,001)	87,010	–	–	–	–	81,009
CPI linked inflation swap net payment/ (receivable)	(5,950)	(5,864)	(2,890)	(5,728)	(5,659)	87,434	61,343
Floating interest swap	830	732	732	732	732	7,682	11,440
Total derivatives	(11,121)	81,878	(2,158)	(4,996)	(4,927)	95,116	153,792

Notes to the financial statements – appendices continued

A4. Financial instruments and risk management continued

Covenant risk

The company's compliance with its lending covenants is a risk. Management are confident that mitigation actions are within their control and no trigger or default event will occur.

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 2026 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

Credit risk continued

The loss allowance as at 31 March 2026 and 31 March 2025 was determined as follows for both trade receivables and contract assets (unbilled accrual for measured customers):

At 31 March 2026	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	**0.26%**	**–**	**3%**	**10%**	**19%**	**36%**	**73%**	
Gross carrying amount – measured household receivables	**–**	**(3,986)**	**27,644**	**6,139**	**3,243**	**1,856**	**2,495**	**37,391**
Gross carrying amount – unbilled accrual for measured customers (household)	**64,934**	**–**	**–**	**–**	**–**	**–**	**–**	**64,934**
Provision at expected loss rate	**169**	**–**	**790**	**612**	**612**	**644**	**1,825**	**4,652**
Expected loss rate – measured household receivables (higher risk debtors)	**–**	**–**	**81%**	**84%**	**84%**	**84%**	**86%**	
Gross carrying amount – measured household receivables (higher risk debtors)	**–**	**–**	**4,634**	**4,102**	**3,299**	**2,725**	**3,868**	**18,628**
Provision at expected loss rate	**–**	**–**	**3,737**	**3,458**	**2,778**	**2,297**	**3,311**	**15,581**
Additional provision for macroeconomic conditions	**–**	**–**	**1,107**	**–**	**–**	**–**	**–**	**1,107**
Loss allowance	**169**	**–**	**5,634**	**4,070**	**3,390**	**2,941**	**5,136**	**21,340**

	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%**	**18%**	**29%**	**43%**	**76%**	
Gross carrying amount – unmeasured household receivables	**(1,606)**	**9,685**	**3,934**	**2,666**	**1,608**	**2,256**	**18,543**
Provision at expected loss rate	**–**	**838**	**708**	**766**	**690**	**1,716**	**4,718**
Expected loss rate – unmeasured household receivables (activity exhausted debtors)	**–**	**81%**	**84%**	**84%**	**84%**	**85%**	
Gross carrying amount – unmeasured household receivables (higher risk debtors)	**–**	**2,523**	**2,013**	**1,850**	**1,491**	**2,184**	**10,061**
Provision at expected loss rate	**–**	**2,053**	**1,697**	**1,561**	**1,260**	**1,861**	**8,432**
Additional provision for macroeconomic conditions	**–**	**720**	**–**	**–**	**–**	**–**	**720**
Loss allowance	**–**	**3,611**	**2,405**	**2,327**	**1,950**	**3,577**	**13,870**

Notes to the financial statements – appendices continued

A4. Financial instruments and risk management continued

Credit risk continued

	Current £000	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	**–**	**–**	**40%**	**15%**	**61%**	**100%**	
Gross carrying amount – unbilled accrual for measured customers (non-household)	**6,602**	**–**	**–**	**–**	**–**	**–**	**6,602**
Gross carrying amount – developer services	**3,406**	**1,770**	**78**	**77**	**27**	**777**	**6,135**
Loss allowance	**–**	**–**	**31**	**12**	**16**	**777**	**836**
Total loss allowance							**36,046**

At 31 March 2025	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	0.57%	–	6%	21%	37%	60%	100%	
Gross carrying amount – measured household receivables	–	(3,700)	21,438	6,141	3,416	2,060	2,580	31,935
Gross carrying amount – unbilled accrual for measured customers (household)	53,211	–	–	–	–	–	–	53,211
Provision at expected loss rate	301	–	1,356	1,285	1,266	1,236	2,580	8,024
Expected loss rate – measured household receivables (higher risk debtors)	–	–	83%	86%	86%	86%	86%	
Gross carrying amount – measured household receivables (higher risk debtors)	–	–	3,641	3,634	2,953	2,478	3,555	16,261
Provision at expected loss rate	–	–	3,039	3,143	2,540	2,119	3,045	13,886
Loss allowance	301	–	4,395	4,428	3,806	3,355	5,625	21,910

Notes to the financial statements – appendices continued

A4. Financial instruments and risk management continued

Credit risk continued

	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	–	15%	27%	43%	62%	100%	
Gross carrying amount – unmeasured household receivables	(872)	8,180	4,257	2,402	1,619	2,123	17,709
Provision at expected loss rate	–	1,267	1,169	1,022	1,006	2,123	6,587
Expected loss rate – unmeasured household receivables (higher risk debtors)	–	84%	86%	86%	85%	85%	
Gross carrying amount – unmeasured household receivables (higher risk debtors)	–	2,188	2,012	1,701	1,455	2,190	9,546
Provision at expected loss rate	–	1,837	1,728	1,457	1,242	1,872	8,136
Loss allowance	–	3,104	2,897	2,479	2,248	3,995	14,723

	Current £000	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	–	–	45%	46%	74%	100%	
Gross carrying amount – unbilled accrual for measured customers (non-household) –	6,480	–	–	–	–	–	6,480
Gross carrying amount – developer services	3,533	455	112	45	140	1,261	5,546
Loss allowance	–	–	50	21	103	1,261	1,435
Total loss allowance							38,068

'Higher risk' (previously 'Activity exhausted') balances represent receivables that have progressed through the full debt recovery lifecycle and for which no further reasonable collection actions are available, resulting in a very low expected recovery.

During the year, the company revised its expected credit loss methodology by extending the assessment period for aged balances from four to six years, resulting in changes to expected loss rates across ageing buckets.

A reconciliation between the opening and closing loss allowances for trade receivables and contract assets for the year ended 31 March 2026 is shown in note 12.

At 31 March 2026 and 31 March 2025, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

	2026 £000	2025 £000
Cash and term deposits (note 14)	**164,100**	128,020
Short-term deposits (note 9)	**129,141**	80,795
Trade and other receivables (excluding prepayments and amounts recoverable from the company's insurer)	**141,520**	128,204
	434,761	337,019

Notes to the financial statements – appendices continued

A4. Financial instruments and risk management continued

Credit risk continued

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:

	2026 £000	2025 £000
AAA	**127,434**	80,000
A-1+	**46,043**	40,709
A-1	**119,764**	85,112
A	**–**	–
	293,241	205,821

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 £210,000,000, linked to the maturity of the Class A fixed rate £250,000,000 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 £250,000,00, linked to the maturity of the Class A fixed rate £250,000,000 bond (March 2036), were entered into between March 2020 and June 2020. A series of floating rate interest swaps with a total nominal value of £280,000,000 linked to the maturity of the Class A fixed rate £350,000,000 bond, were entered into in March 2025.

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 2026	**871,102**	**493,047**	**255,768**	**1,619,917**
31 March 2025	871,220	475,657	248,955	1,595,832

Sensitivity analysis

Sensitivity analysis has been performed on movements in interest rates as the company's fixed rate debts has exposure to interest rates as at 31 March 2026. 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	2026 £000	2025 £000 (restated)
1% increase in RPI	**(784)**	(3,730)
1% decrease in RPI	**790**	3,716
1% increase in CPI	**(19,360)**	(21,170)
1% decrease in CPI	**22,024**	19,558
1% increase in SONIA	**6,940**	(21,551)
1% decrease in SONIA	**(8,603)**	25,092

Notes to the financial statements – appendices continued

A4. Financial instruments and risk management continued

Interest rate and inflation risk continued

The prior year amounts have been restated to include the impact on profit before tax of fair value changes resulting from movements in RPI, CPI and SONIA. In prior periods, the sensitivity analysis reflected only the impact on net interest expense and not fair value gains and losses.

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 a proportion of its anticipated electricity usage out to the end of AMP8 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 69.1% at 31 March 2026 (77.5% at 31 March 2025).

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.

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 reduced the level of investment risk and has invested 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. The existing strategy has a focus on 'cashflow driven investment' with a segregated actively managed 'liability driven investment/cashflow driven investment' portfolio managed by Insight Investment Management Limited. This portfolio is expected to provide stable returns and regular income to meet the plan's outgoings.

The Investment Guidelines in place with Insight Investment Management Limited allow a level of interest rate and inflation hedging ranging from 87.5% to 100%. The current hedging level is 96%, and has remained at 96% since it increased from 95% in November 2024.

Notes to the financial statements – appendices continued

A5. Retirement benefits continued

The latest actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2023, which concluded that the pension plan was 101% 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; and
Pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars.

Defined benefit section – employer contributions

Based on the latest actuarial valuation at 31 December 2023, the company agreed to pay contributions of £700,000 per annum from 1 January 2025 to fund the future cost of benefits being accrued within the plan. Prior to this date, contributions amounted to £1,600,000 per annum from 1 January 2022.

An amended Schedule of Contributions signed on 4 December 2025 reduced company contributions to £nil with effect from 1 July 2025, resulting in a contributions amount of £175,000 paid by the company in the year ended 31 March 2026. Based on this current Schedule of Contributions, the contributions expected to be paid by the company into the AWPP for the year ending 31 March 2027 are £nil.

The weighted average duration of the defined benefit obligation is 11.5 years (2025: 11.8 years).

Defined benefit section – financial and demographic assumptions

Adjustments to actuarial valuations have been made based on the following assumptions:

	2026	2025
Discount rate	**6.15% pa**	5.75% pa
Salary growth	**3.40% pa**	3.10% pa
RPI	**3.30% pa**	3.05% pa
CPI	**2.90% pa**	2.60% pa
Life expectancy for a male pensioner from age 65 (years)	**22.1**	21.5
Life expectancy for a female pensioner from age 65 (years)	**24.2**	23.6
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**23.5**	23.0
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**26.0**	25.2

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.90% per annum (2025: 2.60% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

Notes to the financial statements – appendices continued

A5. Retirement benefits continued

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.

2026	Change in assumption	Impact on defined benefit obligation	Change in assumption	Impact on defined benefit obligation
Discount rate	**0.5% decrease**	**5.6% increase**	**0.5% increase**	**5.3% decrease**
Salary growth	**0.5% increase**	**0.3% increase**	**0.5% decrease**	**0.5% decrease**
Pension growth rate	**0.5% increase**	**4.5% increase**	**0.5% decrease**	**4.2% decrease**
Life expectancy	**1 year increase**	**4.0% increase**	**1 year decrease**	**4.0% decrease**

2025				
Discount rate	0.5% decrease	5.8% increase	0.5% increase	5.3% decrease
Salary growth	0.5% increase	0.5% increase	0.5% decrease	0.4% decrease
Pension growth rate	0.5% increase	4.5% increase	0.5% decrease	4.2% decrease
Life expectancy	1 year increase	4.0% increase	1 year decrease	4.0% decrease

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:

2026	Quoted £000	Unquoted £000	Total £000	Plan assets %
Equity securities	**19,645**	**–**	**19,645**	**5.9%**
Debt securities	**87,892**	**146,404**	**234,296**	**70.0%**
Infrastructure	**–**	**645**	**645**	**0.2%**
Liability driven investments	**70,759**	**–**	**70,759**	**21.1%**
Cash and cash equivalents	**9,390**	**–**	**9,390**	**2.8%**
Total fair value of the plan's assets	**187,686**	**147,049**	**334,735**	**100.0%**
Present value of defined benefit obligations			**(279,895)**	
Net retirement benefit surplus			**54,840**	

2025	Quoted £000	Unquoted £000	Total £000	Plan assets %
Equity securities	23,098	–	23,098	6.9%
Debt securities	87,953	138,627	226,580	67.5%
Infrastructure	–	1,417	1,417	0.4%
Liability driven investments	64,200	–	64,200	19.1%
Cash and cash equivalents	20,572	–	20,572	6.1%
Total fair value of the plan's assets	195,823	140,044	335,867	100%
Present value of defined benefit obligations			(286,121)	
Net retirement benefit surplus			49,746	

Notes to the financial statements – appendices continued

A5. Retirement benefits continued

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 2025 / 1 April 2024	**335,867**	370,339
Benefits paid	**(20,347)**	(18,450)
Principal employer contributions	**427**	1,667
Contributions by plan participants	**130**	123
Interest income	**18,753**	17,381
Re-measurement losses	**(95)**	(35,193)
At 31 March 2026 / 31 March 2025	**334,735**	335,867

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 2025 / 1 April 2024	**(286,121)**	(322,834)
Benefits paid	**20,347**	18,450
Contributions by plan participants	**(130)**	(123)
Current service cost	**(1,129)**	(1,583)
Administration costs	**(495)**	-
Interest expense	**(15,892)**	(15,063)
Re-measurement gains/(losses):		
- Changes in financial assumptions	**5,712**	35,831
- Changes in demographic assumptions	**(2,630)**	955
- Experience gains/(losses)	**443**	(1,754)
At 31 March 2026 / 31 March 2025	**(279,895)**	(286,121)

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 2026 was £5,613,000 (2025: £5,116,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2026 (2025: £nil).

Notes to the financial statements – appendices continued

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 2026 (2025: £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 2026 (2025: £6,000), 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

			2026		2025	
Related party	Nature of relationship	In respect of	Value £000	Balance £000	Value £000	Balance £000
Allianz Insurance	Common ownership	Insurance	**61**	**(61)**	62	(62)
Arqiva Limited	Common ownership	Smart Metering supplies	**8,060**	**1001**	–	–

Sales of goods and services

			2026		2025	
Related party	Nature of relationship	In respect of	Value £000	Balance £000	Value £000	Balance £000
Arqiva Smart Metering Limited	Common ownership	Smart Metering supplies	**1**	**–**	–	–

See note 3.3 for disclosure of the directors' remuneration.

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Glossary of terms

Water industry-specific terms

AMP – Asset Management Period
The five-year price control period covered by a company's business plan and Ofwat's determination.

AMP8 runs 2025–30

APR – Annual Performance Report
Regulatory report submitted to Ofwat each year detailing performance against commitments.

ARAC – Audit, Risk and Assurance Committee
Board committee overseeing financial reporting, risk management, internal controls and audit.

ARP4 – Adaptation Reporting
Fourth round of UK climate risk and resilience reporting under the Climate Change Act.

BR-MeX – Business Retailer Measure of Experience
A performance measure assessing the service provided to business customers and retailers.

BNG – Biodiversity Net Gain
A regulatory requirement ensuring developments leave biodiversity in a measurably improved state versus baseline.

BLTG – Board leadership, transparency and governance
Ofwat assessment of company leadership, governance effectiveness and transparency.

C-MeX – Customer Measure of Experience
A measure of household customer satisfaction with service quality and experience, set by Ofwat.

CDP – Carbon Disclosure Project
Global platform for disclosing environmental data on climate, water and forests.

CRI – Compliance Risk Index
A DWI metric indicating risk arising from treated water quality compliance failures.

D-MeX – Developer Measure of Experience
A measure of developer services customer experience (connections, new mains, etc.).

ELT – Executive Leadership Team
Senior team responsible for strategic delivery and day-to-day management.

ESG – Environmental, Social & Governance
A framework for measuring sustainability performance, governance and disclosures (incl. TCFD/TNFD).

ESOS – Energy Savings Opportunity Scheme
Mandatory UK energy assessment scheme; actions feed into Affinity Water's delivery plan.

ERI – Event Risk Index
DWI measure of risk and severity associated with drinking water quality events.

FD – Final Determination
Ofwat's decision on allowed revenues, performance commitments and funding for the AMP (accepted Dec 2024 for AMP8).

GAC – Granular Activated Carbon
Treatment process used (e.g. for PFAS removal) to enhance water quality.

Green Bond/Green Finance Framework
Debt raised for eligible environmental projects under Affinity Water's Green Finance Framework.

GHG – Greenhouse Gas Emissions (Scopes 1, 2, 3)
Emissions from operations, purchased electricity and value chain activities; tracked toward Net Zero targets.

INNS – Invasive Non-Native Species
Species management programme within catchments to protect river ecology and raw water quality.

Leakage (regulatory definition)
Percentage reduction versus a 2019/20 baseline, reported on a three-year rolling average and as in year Ml/d.

LNR – Local Nature Reserve
Locally designated area for wildlife conservation and public enjoyment.

LTDS – Long-Term Delivery Strategy
Multi decade plan aligning outcomes for customers, resilience and the environment; AMP8 delivers its first phase.

Mains Repairs
Repairs per 1,000 km of network – an asset health and service reliability indicator.

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

NAV(s) - New Appointments and Variations
Licensed providers supplying water services to new developments alongside existing companies.

Net Zero (sector targets)
Operational emissions and total emissions (including supply chain) by 2050.

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

Open data
Making data freely available to everyone to access, use and share. Data is essential for developing insight, making informed decisions and improving services, increasing transparency, increasing efficiency, enhancing customer experience, and stimulating innovation.

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

PFAS – Per and Polyfluoroalkyl Substances
Persistent "forever chemicals" requiring enhanced treatment; Ofwat has provided an uncertainty mechanism for efficient solutions.

PRI – Principles of Responsible Investment
UN-supported framework for integrating ESG into investment decisions.

PR24 – Periodic Review 2024
Ofwat's review that sets price controls for AMP8 (2025–30).

PSR – Priority Services Register
Customers in vulnerable circumstances.

Glossary of terms continued

R&D – Research and Development
Activities to drive innovation, improvement and new solutions.

Regulatory earnings
Regulatory earnings represent performance on a regulatory basis, reflecting allowed revenues and costs under the price control framework, including the impact of indexation and timing differences between expenditure and recovery.

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

RoRE – Return on Regulated Equity
A financial metric used by Ofwat to determine the profitability of the regulated company.

Smart Metering
Meters that provide granular consumption data to support demand reduction and leakage control.

TCFD – Taskforce on Climate related Financial Disclosures
Framework for governance, strategy, risk and metrics related to climate (scenario analysis included).

TNFD – Task Force on Nature related Financial Disclosures
Framework for nature dependencies, impacts, risks, opportunities and metrics.

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

Unplanned Outage
Loss of peak week treatment capacity (percentage) due to asset failure – tracked as a performance commitment.

UN SDGs– United Nations Sustainability Development Goals
Global framework of 17 goals aimed at achieving a more sustainable and equitable world by 2030.

Viability Statement
Directors' assessment of the company's ability to continue operating and meet liabilities under stress scenarios.

WBS – Whole Business Securitisation
Financing structure that secures company debt against the entire regulated business, supporting investment grade ratings.

WFD – Water Framework Directive
Legislation to protect and improve the status of water bodies.

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

WISER – Water Industry Strategic Environmental Requirements
Regulator guidance on environmental expectations for water companies.

WRE – Water Resources East
Regional group planning long-term water supply solutions in Eastern England.

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

WRMP24 – Water Resources Management Plan 2024
Latest plan outlining how water supply and demand will be balanced long term.

WRSE – Water Resources South East
Regional partnership coordinating water resource planning across South East England.

WSMA – Water (Special Measures) Act
UK legislation aimed at strengthening regulation, enforcement and accountability within the water sector.

Regulators

CCW – Consumer Council for Water
Represents water customers and investigates complaints regarding service and value for money.

Defra – Department for Environment, Food and Rural Affairs
UK Government department responsible for water policy and regulatory framework.

DWI – Drinking Water Inspectorate
Ensures water companies supply safe, high-quality drinking water meeting legal standards.

EA – Environment Agency
Regulates environmental performance, abstraction licences, and the Water Industry National Environment Programme.

IWC – Independent Water Commission
Government-appointed commission engaged on future sector reforms and governance expectations.

Ofwat – Water Services Regulation Authority
The economic regulator of the water industry, setting price controls and overseeing performance.

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