

AffinityWater

Taking care of
your water now
and for the future

Annual Report and Financial Statements
for the year ended 31 March 2025

Affinity Water Limited
[Registered Number 02546950]

AffinityWater

Affinity Water Limited

Tamblin Way
Hatfield
Hertfordshire AL10 9EZ

Tel: 0345 878 0900

[affinitywater.co.uk](https://www.affinitywater.co.uk)

Contents

Business Overview

Purpose & Vision	01
Our long-term ambitions	01
2024/25 Highlights	02
The communities we serve	03
Chair's welcome	04
How we operate	06
Measuring how we are doing – Performance highlights	07

Strategic Report

Chief Executive Officer's introduction	14
Our business model and strategy	18
Our approach to sustainability	20
Our 2025-2030 business plan (AMP8)	24
Our customer objectives	26
Section 172(1) Statement	30
Our external environment	40
Our planning horizons	41
Financial review	44
Principal Risks and uncertainties	49
Viability statement	57
Our alignment to the UN SDGs	63
Task Force on Climate-related Financial Disclosures	64
Task Force on Nature-related Financial Disclosures	79
Non-financial information statement	85

Governance

Introduction from the Chair	90
Our board of Directors	92
Corporate governance report	95
Environment, Social and Governance Committee report	110
Audit, Risk and Assurance Committee report	116
Nomination Committee report	124
Remuneration report	130
Ownership and financing	151
Directors' report	156

Financials

Independent Auditors' report	166
Income statement	174
Statement of comprehensive income	175
Statement of financial position	176
Statement of changes in equity	177
Statement of cash flows	178
Notes to the financial statements – accounting policies	179
Notes to the financial statements	184
Notes to the financial statements – appendices	204

Welcome to the Affinity Water Annual Report & Financial Statements 2024/25

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.

Our 2025-2030 business plans and related reports

In December 2024, we received Ofwat's Final Determination of our 2025-2030 business plan. Over the next five years, we will deliver a £2.3 billion investment programme designed to ensure we continue to provide high-quality, sustainable and affordable water services for our customers now and in the future.



Climate Change Adaptation Report 2024



Annual performance report 2024



Water Resources Management Plan 2024



Our long-term plan 2025-2050



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.

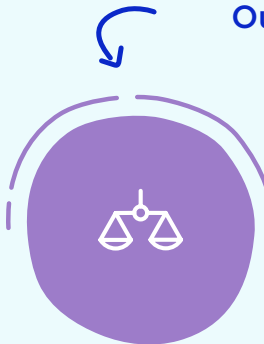
We're taking care of your water now and for the future

Purpose

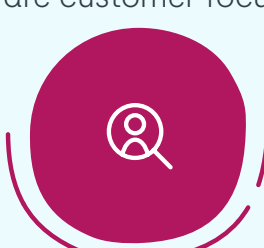
Our purpose is to provide high-quality drinking water for our customers and take care of the environment, for our diverse communities now and in the future

Our vision is to lead the way

We are customer focused



We do the right thing



We work as one team



Leave the environment in a sustainable and measurably improved state.

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

Read more on [page 62](#)



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

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

Read more on [page 30](#)



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

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

Read more on [page 40](#)



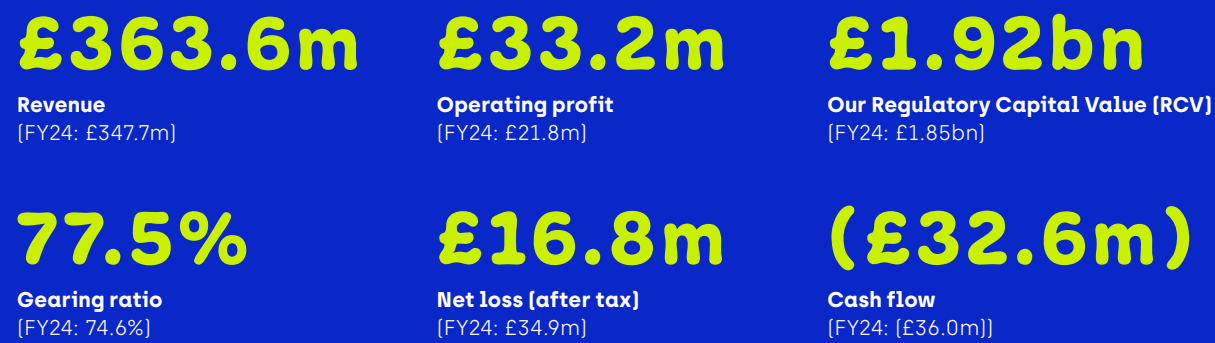
Deliver what our customers need, ensuring affordability for all.

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

Read more on [page 26](#)

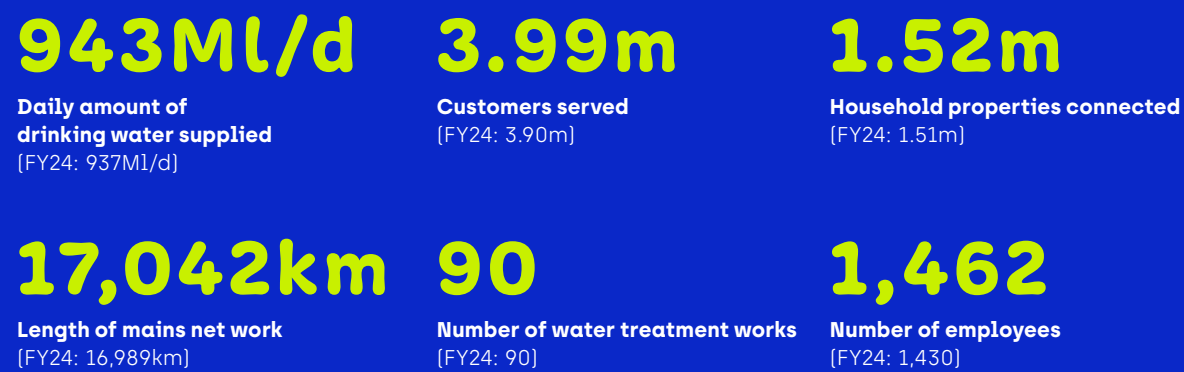
2024/25 Highlight

Financial performance



Read more about our Financial Review on [page 44](#)

Operational performance



Read more about our Annual Performance on [page 07](#)

ESG performance



Read more about our ESG Performance on [page 20](#)

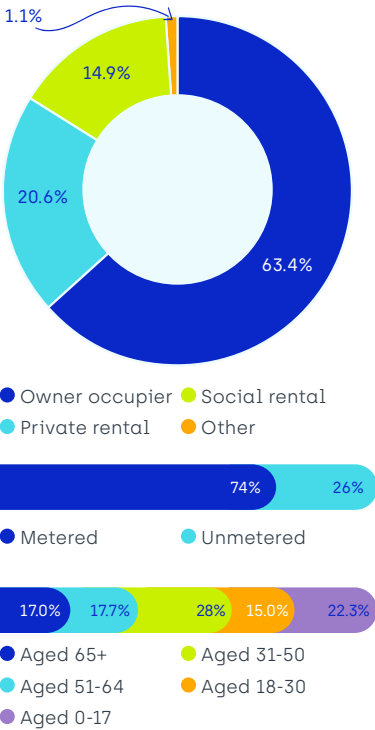
The communities we serve

Our supply area is unique

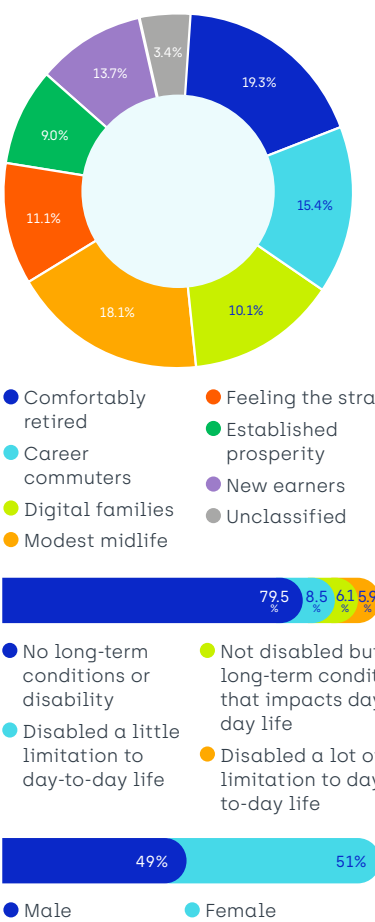
It contains 10% of all the world's rare chalk streams, which are under threat from climate change, water demand, pollution and centuries of adverse river modifications.



Household Ownership Status



Demographic Segmentation



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

Some of the most densely populated and economically active regions in the UK, while also being in a water stressed area.

Population growth, increased demand for water, climate change and the need to leave more water in the environment means we work increasingly closely with our customers to help them use water more efficiently. Our customers currently use 154 litres per person per day compared to the average of 137 litres and we are working hard through our smart metering, behaviour change campaigns and tariff trials to reduce this.

Chair's welcome

66 Over the next five years we will be delivering a £2.3 billion investment programme, designed to make sure we can continue to provide high-quality and affordable services for our customers now and in the future."

Mike Brown CBE MVO
Company Chair



Transition of Leadership and Role as Chair

Although I joined the Affinity Water Board in October 2024, I took up the role as Chair at the end of January 2025, allowing Ian Tyler to continue his work leading the company through to the end of the regulatory price review process. This allowed for a smooth transition at a crucial time for Affinity Water and means that my tenure as Chair starts at the very beginning of the new five-year investment period.

Future Investment

Affinity Water has clearly navigated the periodic review process very effectively. The company's representations on the Draft Determinations were instrumental in achieving an outcome at Final Determination (FD), which is sustainable and deliverable, but remains ambitious and challenging. Over the next five years we will be delivering a £2.3 billion investment

programme, designed to make sure we can continue to provide high-quality and affordable water services for our customers now and in the future. The positive outcome at FD combined with the steps taken over the last two years to improve operational performance means that Affinity Water is well-placed to deliver on its business plan for customers and the environment in the next asset management period.

Financial Strength and Strategic Refinancing

Following the FD, our shareholders committed to inject £150 million in equity by 31 March 2026, which will enable us to maintain gearing at around 70% across the next AMP.

Following affirmation of our credit ratings, which are now amongst the strongest in the sector, we have also been able to move quickly to successfully issue a £350 million green bond on favourable terms in early March.

Highlights

- Sector leading performance on the measures which matter most to customers – water quality, unplanned outages and interruptions to supply.
- Successful delivery of the AMP7 enhancement programme and early mobilisation with supply chain for delivery of AMP8.
- Improving financial performance with increases in revenue and operating profit and growth in Regulatory Capital Value (RCV).
- Ofwat's Final Determination sustainable and deliverable – but challenging and ambitious.
- Financial resilience strengthened with £150m equity injection and £350m committed green bond issuance. Gearing to be reduced.

Operational Excellence

This has been another strong year in our delivery of public service for customers and the environment. Keith Haslett goes into more detail on operational performance in the CEO's review, but the whole company is to be congratulated on taking Affinity Water from being one of the lowest ranked companies on performance to be one of the leaders over the last five years. Although I have not been with the company long, it is clear that the focus on developing a new leadership culture and the effort put in to engage with colleagues right across the organisation has, combined with a drive for operational excellence, transformed Affinity Water in a relatively short space of time. I know that the team is in no way complacent and will be looking to further build on this over the next five years.

In common with the Board, the team know that we are now committed to even higher levels of service and to deliver a much larger investment programme that has previously been the case. It is encouraging that we have secured all our key supply chain contracts before the start of the AMP and so can move quickly to deliver.

Financial Performance

We have continued to see improved financial performance with increases in both revenue and operating profit, as well as growth in regulatory capital value (RCV) reflecting the high levels of investment over the last 12 months.

Public and Political Engagement

The new AMP starts in a period of unprecedented public and political interest in the future structure and direction of the sector. There is no doubt that performance in some areas of the sector has fallen short of what the public have a right to expect, and that there have been significant shortcomings in the behaviour of some water companies. The new government moved quickly to deliver on its manifesto commitments, passing the Water (Special Measures) Act with new provisions for Executive

remuneration and a new regime of environmental fines. The Act contains some governance provisions, giving customers a role in decision making, which could prove transformational. Our intent at Affinity Water is to constructively embrace the spirit of these provisions and find ways in which we can really innovate, going beyond minimum compliance. We intend to move at pace to implement these and have taken account of the Act's provisions on performance related pay and the subsequent rules issued by Ofwat when making our decisions on Executive remuneration.

We are also engaging with the Independent Water Commission (IWC) under Sir Jon Cunliffe and are keen to assist him and his secretariat in their important work. Our objective is to help the Commission achieve the best possible outcome in the national interest. As a water only company our priority is water security and we are focusing on how this can be achieved whilst supporting the need for growth in the economy. Our supply area is challenging in this regard: a growing population and a highly sensitive environment mean that we have a difficult balance to achieve on water resources. New industries, drivers of growth such as data centres, add to that challenge, but we want to work with the IWC and government to find innovative ways to achieve this balance.

Commitment to Public Service

Affinity Water is one of the few remaining companies in the sector which has never been nationalised and therefore always provided public service with private finance. As such we understand very well that public expectations of us are much higher than is the case with public sector suppliers. We set ourselves high standards in this regard and seek to engage closely with customers, stakeholders and environmental groups in the way in which we deliver our service. I have been impressed that the Board has a strong focus on the public value and sustainability of our operations and I expect this to increase to match public expectations.

Looking Ahead

I have been made most welcome since joining the Affinity Board and would like to thank everyone at the company for the support and assistance I've received. In particular, I'd like to thank my predecessor, Ian Tyler, for making the transition so smooth and also to commend him for the steady leadership he has shown through a challenging period over the last four years. I look forward to working with all my colleagues at the company and with our stakeholders to contribute to our delivery over the next five years.

Mike Brown CBE MVO
Company Chair

10 July 2025



How we operate

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

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

Our water cycle

Bringing our water together 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 the demand for water and the effects of climate change.

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

Read more about our strategic resource option Grand Union Canal on page 41.

2.

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

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

3.

Delivering an uninterrupted supply of high quality water to our customers

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

Delivering a seamless customer experience source to tap

Measuring how we are doing – Performance highlights

Fifth year of our 2020–2025 business plan

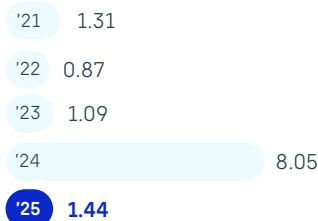
Every five years, water companies produce business plans that set out the performance commitments they will make over a five-year period. These plans are shaped by customers and other stakeholders, based on what they want their water company to achieve and are approved by our regulators.

Operational performance

Supplying high-quality water you can trust

Water quality

Compliance Risk Index ['CRI'] score



Performance

Actual: 1.44
Deadband
Target: 2.0

Customer outcome

Linked to remuneration

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

In 2025, we saw a significant improvement in our CRI score from 2024, improving from 8.05 to 1.44, and back to the levels seen in the first three years of AMP7.

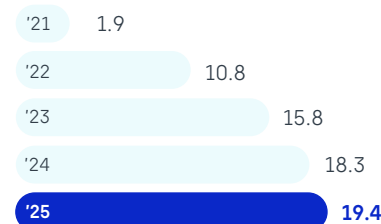
The underlying quality of our drinking water supplies remains high and our expectation for future CRI performance is that our scores will remain below the deadband during AMP8.

Read more on [water quality](#) on page 14

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

Leakage reduction

Percentage reduction



Performance

Actual: 19.4%
Target: 20% or more

Customer outcome

Linked to remuneration

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

Whilst we have fallen slightly short of our targeted 20% reduction in the three-year rolling average, we have managed to increase our percentage reduction from 18.3% at the end of 2023/24 to 19.4% at the end of 2024/25. This is a result of driving down the in-year leakage by 5.4Ml/d from our 2023/24 position. This will see us achieve the in-year WRMP commitment.

Read more on [leakage](#) on page 15

Link to remuneration

- Supplying high-quality water you can trust
- Making sure you have enough water, whilst leaving more water in the environment

- Providing a great service that you value
- Minimising disruption to you and your community

Trend

- Improving performance
- Declining performance
- Target met
- Target not met

Measuring how we are doing –

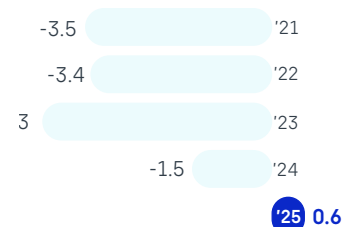
Performance highlights continued



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

PCC

Average water use percentage change from 2019/20 baseline



Performance

Actual: 0.6% reduction
Target: 12.5% reduction

Customer outcome

Linked to remuneration

The performance commitment aims to incentivise us to help customers reduce their water consumption.

The water reduction in our three-year rolling average period has continued to come down from -1.5% in 2023/24 to -0.6% in 2024/25. We are determined to drive per capita consumption down with the continuation of demand activities and the introduction of new initiatives. Our home visits with customers continue to help install water efficient devices and repair internal leaks to reduce plumbing losses. Alongside discussions on water behaviour, we provide customers with the tools to carry these water savings into the future.

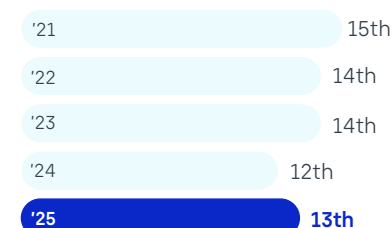
[Read more on PCC on page 16](#)



Providing a great service that you value

C-MeX

[Score]



Performance

Actual: 70.10 [13 of 17]
Target: league table position

Customer outcome

Linked to remuneration

This customer focused performance commitment measures direct customer feedback on satisfaction with our services. We dropped one position to 13th place in our C-Mex score. We recognise that customers are expressing dissatisfaction with a broad range of issues within the water industry, which includes price increases and leakage. Customers expect faster resolution times for all services. We are committed to enhancing customer satisfaction through a series of strategic initiatives which will significantly improve our performance going forward.

We are focusing on improving customer resolution, reducing wait times and getting it right first time for our customers.

[Read more on C-MeX on page 15](#)

Link to remuneration



Supplying high-quality water you can trust



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



Providing a great service that you value



Minimising disruption to you and your community

Trend



Improving performance



Declining performance



Target met



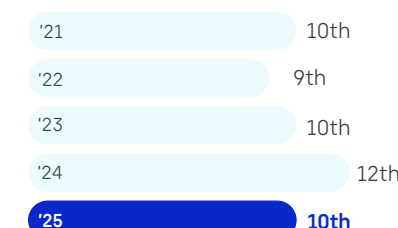
Target not met



Providing a great service that you value continued

D-MeX

[Score]



Performance

Actual: 89.50 [10 of 17]
Target: league table position

Customer outcome

Linked to remuneration

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

Our D-Mex performance has gradually improved throughout this year.

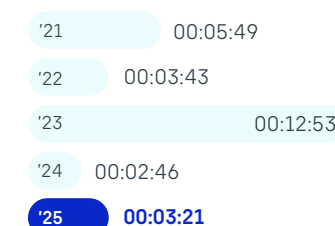
We know that pro-active communication, delivering against timescales and quality of works are key service elements for our customers. We have shown improvements throughout this year and look forward to continued improvements into the next.



Minimising disruption to you and your community

Water supply interruptions >3 hours

[Average minutes per property, water supply interruption]



Performance

Actual: 3 minutes 21 seconds
Target: 5 minutes 0 seconds

Customer outcome

Linked to remuneration

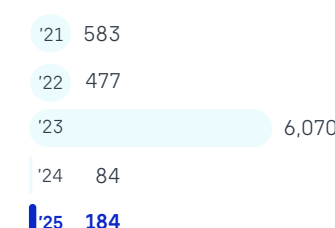
Performance during the 2024/25 reporting year has remained very good, keeping us below our target of 5 minutes for the year. We prioritise restoration of supply over repair and ensuring that disruptions to our customers are kept to a minimum.

We continue to respond to events rapidly, remain committed to maintaining good asset health, while also optimising our network and assets. We look to mitigate and reduce the length of interruptions experienced and provide a high level of service for our customers.

[Read more on water supply interruptions on page 15](#)

Unplanned interruptions to supply over 12 hours

[Number of properties]



Performance

Actual: 184
Target: 320 or less

Customer outcome



Linked to remuneration

The unplanned interruptions >12 hours measure is our second supply interruption performance commitment. The improvements seen in our average minutes metric have also been reflected in unplanned interruptions >12 hours.

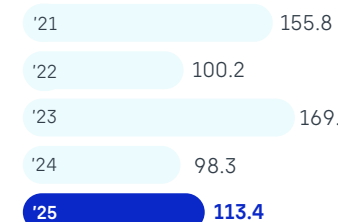
[Read more on unplanned interruptions on page 15](#)

Measuring how we are doing – Performance highlights continued

Minimising disruption to you and your community continued

Mains repairs (due to bursts)

(Number per 1,000km mains)



Performance

Actual: 113.4
Target: 142.3

Customer outcome



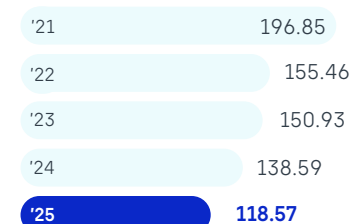
Linked to
remuneration

Read more on [mains repairs](#) on page 26

We have outperformed our target this year on the number of repairs per 1000km of mains, achieving 113.4 repairs against a score of no more than 142.3. We continue to invest in the proactive replacement of mains pipes and adopt new ways of working to improve our performance.

Properties at risk of low pressure

(Number per 10,000 properties)



Performance

Actual: 118.569
Target: 1.118

Customer outcome



Linked to
remuneration

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

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

We have not achieved the target for this performance commitment since it was introduced. Our average minutes metric provides more indication of the impact felt by our customers.

Link to remuneration



Supplying high-quality water you can trust



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



Providing a great service that you value



Minimising disruption to you and your community

Trend



Improving performance



Declining performance



Target met

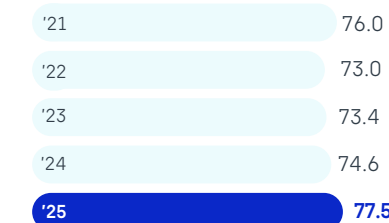


Target not met

Financial performance

Financial Gearing

(Ratio of net debt to RCV %)



Performance

Actual: 77.5%
Internal threshold: 80%

Customer outcome

Linked to
remuneration

Read more on [Financial Gearing](#) on page 47

Our net debt as at 31 March 2025 was £1,487.3 million, an increase of £105.0 million since last year (2024: £1,382.3 million). This increase is primarily driven by capital expenditure on our network. In addition, our index linked bonds and swaps have increased by prevailing RPI and CPI. This non-cash accretion is designed to match growth in nominal RCV and is included within net debt. Our gearing as at 31 March 2025 is higher than some of our peers, however in February 2025 we announced that shareholders had entered into a legally binding and unconditional agreement to inject £150 million equity into the company in the financial year 2026. We also announced our intention to maintain gearing around 70% which is consistent with our target credit ratings of A3/BBB+/BBB+ for our Class A Bonds with Moody's, Standard & Poor's, and Fitch.

Read more about Financial Review on page 44

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

Cash flow

(Net cash flow before tax and financing)



Performance

Actual: (£32.6m)
Prior year: (£36.0m)

Customer outcome

Linked to
remuneration

Read more on [Cash flow](#) on page 47

The net cash flow before tax and financing for the year was a £32.6 million outflow, £3.4 million lower than last year (2024: £36.0 million outflow). This movement is mainly due to improved operational performance that supports our continued investment in fixed assets as part of the 2020-2025 plan.

For further details on financial performance, see page 47. For information on performance commitments, refer to the Regulatory Annual Performance Report for the year ending 31 March 2025 (page 73, table 3A) at affinitywater.co.uk/reports-publications.

Strategic Report

In this section

Chief Executive Officer's introduction	14
Our business model and strategy	18
Our approach to sustainability	20
Our 2025-2030 business plan (AMP8)	24
Our customer objectives	26
Section 172(1) statement	30
Our external environment	40
Our planning horizons	41
Financial review	44
Principal risks and uncertainties	49
Viability statement	57
Our alignment to the UN SDGs	63
Task Force on Climate-related Disclosures ('TCFD')	64
Task Force on Nature-related Disclosures ('TNFD')	79
Non-financial information statement	85

CEO's Introduction

[Read more on page](#)

14

Our Business Model

[Read more on page](#)

18

Our Strategy

[Read more on page](#)

18

Our 2025 - 2030 Business Plan

[Read more on page](#)

24

Our Long-term Ambition - Customers

[Read more on page](#)

26

Our Long-term Ambition - Communities

[Read more on page](#)

30

Our Long-term Ambition - Resilience

[Read more on page](#)

40

Our Long-term Ambition - Environment

[Read more on page](#)

62

Chief Executive Officer's introduction

“Our draft business plan for 2025-30 achieved the highest quality rating from Ofwat and its Final Determination, received in December 2024, closely matches our original submission.”

Keith Haslett
Chief Executive Officer



As we reach the end of the current five-year period and the start of the next, this is a good time to reflect on the progress which we have made over recent years in transforming the performance of Affinity Water.

It is timely to look to the significant challenges of delivering a very ambitious programme for customers and the environment in the next AMP.

This is also a time of potentially profound change in the water industry and we are committed to playing an active and constructive role in the various reviews which are underway and which could lead to legislative change coming forward in early 2026.

Performance overview – focus on people, culture and operational excellence.

The improvements in our performance set out in last year's annual report have continued and this means that over the last few years, from being one of the weaker performers in the sector we have become one of the strongest.

This change has been delivered by a clear management focus on: people, culture, engagement and operational excellence. In people and culture, we have simplified our purpose, vision and values and worked to ensure that all colleagues in the organisation are aware of what these mean and are clear on the role which they play in delivering our purpose.

This focus on engagement has brought about a steady improvement in our Peakon scores, which measure

colleague engagement across a number of metrics. Our ratings now place us in the top 25 per cent of the energy and utilities sector and our aim is to continue this improvement.

To ensure that all our colleagues are prepared for the start of the next AMP and the challenges it will bring, we ran a series of road shows in January and February 2025. These covered topics including our ambitious smart metering programme, how we're planning to transform our customer experience and the targets and performance commitments we've signed up to. Over 900 colleagues attended the 19 sessions we ran across six locations.

Our work on equality and diversity has also shown positive results. Our gender pay gap has reduced, our managers and leaders are more reflective of the gender balance amongst our employees and our female retention rate has improved.

Our work to transform the maintenance of our assets is a great example of our focus on operational excellence. This project, using international best practice, has set out to shift the balance between reactive and proactive maintenance and to enhance the capability of our workforce. Our maintenance excellence programme stands out because it demonstrates that data driven asset management is achievable. It is also a people

led approach which empowers the workforce to drive change and ensures that data driven decision making is understood and embraced.

The programme has significantly improved our asset maintenance maturity and boosted our compliance. It has mitigated our unplanned outage risk and also freed resource allowing teams to focus on planned maintenance.

Performance highlights

We have met or exceeded our regulatory targets in the majority of the areas which we know matter most to customers such as water quality, unplanned outages and interruptions to supply. We have also delivered all our AMP7 obligations under the Water Industry National Environment Programme and all other statutory requirements.

While we have narrowly missed our three-year average leakage target we have met our in-year WRMP commitment and are in a good position to start year one of the next AMP. We have not achieved our targets for per capita consumption and C-MeX – the customer experience measure used by Ofwat.

Water quality

I am pleased to report that we have improved our performance in the Compliance Risk Index ('CRI') which measures the risk associated with the quality of water we produce. We



have maintained the approach taken in the last year to mitigate the risks identified and our internal CRI Board continues to focus on issues such as reservoir inspections, site hygiene and staff awareness. Our year-end position is 1.44 which beats our deadband target of 2.

Water supply interruptions and unplanned outages

Our performance on these two measures can be regarded as sector leading and can be attributed to the success we have had in improving operational efficiency. We have a strong focus on speed of response and swift resolution underpinned by prudent mains replacement and asset management.

Leakage

Our in-year performance on leakage shows a 19.4% reduction against the three year rolling average target of 20%. We experienced significant leakage outbreak during the year which disrupted our recovery plan. We are now however back on track and with a reduction profile which will enable us to meet our targets for the new AMP.

C-MeX

C-MeX measures customer satisfaction with the service they receive. Our target was to improve our position on C-MeX relative to the rest of the sector, but unfortunately our position has dropped by one. Customer dissatisfaction with the whole of the water industry combined with the rising prices have been strong influences. We have seen some improvement in some of the elements which are directly under our control and have a programme to transform customer experience and to speed up the resolution of customer issues.

Financial performance

Revenue increased to £363.6million (2024: £347.7m) and our operating profit also increased to £33.2 million (2024: £21.8 million). Further details are included in our Financial Review on pages 44-48. We have met our own financial targets for the year relating to base cost expenditure, enhancement expenditure, and cash generated from operations.

The Final Determination and look forward to AMP8

Our draft business plan for 2025-30 achieved the highest quality rating in the industry from Ofwat and its Final Determination, received in December 2024, closely matches our original submission. Ofwat recognised the risks associated with our new obligations to remove PFAS chemicals from raw water during treatment and allowed an uncertainty mechanism which will enable us to develop efficient costs before scheme sign off.

We conducted a thorough analysis of the deliverability and financeability of the plan under the terms set out in the Final Determination. As a result of this analysis, the Board has concluded that the plan is deliverable and we have accepted the determination. I am delighted that our investors have agreed to back the plan with further unconditional committed equity investment. It was also very pleasing to be the first water company to raise green bond finance in the UK Sterling bond market after the Final Determination.

Chief Executive Officer's introduction continued

Although we are pleased that we now have clarity over the next five years, we are also aware that delivering a much larger investment programme, will be a significant challenge. We have taken early steps to ensure that we are prepared for this and now have all our key contracts in place with our supply chain meaning that we are well placed for an early mobilisation of the investment programme.

Helping customers with price increases

We are very conscious that our business plan involves a significant price increase for our customers, of 19% for measured customers and 29% for unmeasured in the first year of the new AMP. We have also increased the support available to customers through our various social tariffs and are actively promoting the ways in which customers can access our social tariffs.

In the longer term we are trialling new ways of charging for water to incentivise water saving and save money for those on lower incomes. Our initial trial on 1500 households in Stevenage is showing very positive results at the halfway stage. We are seeing a material reduction in per capita consumption from households on the trial and arrears and bad debt have also fallen indicating that there are affordability benefits as well. We are looking to run a larger scale trial next year and are also talking to government about the results to help their development of future policy in this area.

We know that the next AMP brings major challenges as we will be delivering a £2.3 billion programme which is significantly larger than any previous programme. Although we have taken prudent steps to ensure we are well prepared, we know that we will have to continue the performance improvements we have shown in the last two years to deliver our commitments to customers. I would like to thank all my colleagues at Affinity Water for the dedication they've shown in the last two years to take us to this point and I know that they will show the same levels of commitment to deliver our exciting programme in the next AMP.

Keith Haslett
Chief Executive Officer

10 July 2025



Our business model and strategy

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

[Read more on our external environment on page 40](#)

Stakeholders

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

[Read more on stakeholder engagement on page 31](#)

UNSDGs

Our alignment with the UN Sustainable Development Goals

[Read more on UNSDGs on page 63](#)



shape our purpose and ambitions...

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

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

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

Long-term strategy

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



The people that Affinity Water will work with:

Environment objectives:

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

Resilience objectives:

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

Communities objectives:

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

Customers' objectives:

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

[Read more about How we operate section on page 6](#)

enabling better outcomes for our customers'

A sustainable water supply for this century and beyond

We plan and invest for the long term, using innovative technology, 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 plan for 2025–2030 was submitted to Ofwat in September 2023 and in December 2024 we received a favourable Final Determination, securing a £2.3 billion investment programme.

[Read more on how we operate on page 6](#)

Our customer outcomes:

We provide water to over 3.99 million customers and 78,000 businesses in our supply area and have committed to:

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

and creating value for all.

Customers

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

Employees

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

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.

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.

Shareholders

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

Regulators

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

Our approach to sustainability

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

- To Affinity Water, Environment, Social and Governance ('ESG') provides:
- A quantifiable measure of our impact on the environment and society;
 - A management philosophy that seeks to convert social and environmental risks into opportunities to generate sustainable growth and build business resilience;

- A holistic approach to demonstrating the long-term value of our organisation– both in a qualitative and quantitative manner.
 - We are on the journey to implementing our strategy by:
 - Establishing ESG governance and leadership

- Aligning existing policies and strategies with ESG objectives
 - Developing internal and external Communication plan for ESG
 - Integrating ESG into decision making frameworks
 - Developing approach for articulating ESG value creation
 - Establishing ESG metrics for measuring and monitoring progress

External guidelines we follow

We use ESG frameworks that provide a set of guiding principles for decision making within organisations, while ESG reporting allows the organisation to communicate externally its progress in addressing ESG issues with stakeholders.

ESG reporting landscape include many different reporting regulations, standards, frameworks, metrics, methodologies and formats, some of which are required internationally or at the EU level, while others are UK specific or voluntary.

Mandatory	Requirement	How it was met
1. Climate Change Act 2008	We are required to provide an updated Climate Change Adaptation Report (round 4) to support government understanding of the climate risks and adaptation actions being taken in important infrastructure and contribute to the UK's Climate Change Risk Assessment ('CCRA') and the National Adaptation Programme ('NAP').	We submitted our report to Department for Environment Food and Rural Affairs ('DEFRA') in December 2024, taking into account changes to our business plans, including the WRMP, PR24 business plan, our long-term Delivery Strategy and Drought Management Plan, since the last report in 2021. We are required to publish the finalised report on our website. See link here: affinitywater.co.uk/docs/reports/2024/ARP4-Affinity-Water-Climate-Change-Adaptation-Report-2024.pdf
2. The Task Force on Climate-related Financial Disclosures ('TCFD')	We are required to disclose climate-related financial information. We follow the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD'), providing our stakeholders with transparent information on climate-related risks and opportunities that are relevant to our business.	To enhance alignment further climate change transition risks, analysis has been completed, including identification of six risks, and scenario analysis based on two scenarios for transition to Net Zero- orderly and disorderly based on framework - Network for Greening the Financial System ('NGFS'). Our internal TCFD working group undertook climate change transition risk analysis which has significantly improved our alignment with the framework and moved us to best practice in describing our strategy resilience taking into consideration different climate related scenarios. See page 64
3. Energy Savings Opportunities Scheme ('ESOS') (Amendment) Regulations 2023	A mandatory energy assessment scheme for organisations in the UK with the Environment Agency as the UK scheme administrator	We have completed the assessment with help from AECOM, which includes: - total energy consumption, - identification of areas of significant energy consumption, and - energy intensity ratios We have submitted an action plan in December 2024 to the EA setting out a list of measures to allow us to save energy and achieve carbon and cost savings. These have been integrated into the PR24 delivery plan.

Mandatory	Requirement	How it was met
4. Sustainable Finance Disclosure Regulation	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 DIF.
5. Ofwat 'Public Value Principles'	Introduced by regulator Ofwat in 2022 to encourage water companies to provide value beyond just water provision services and create social and environmental value.	In November 2024 we started a project to develop our public value positioning that elevates Affinity Water's public value beyond delivery of water and provides a platform to engage key stakeholders on critical issues.
6. The Task Force on Nature-related Financial Disclosures ('TNFD')	Disclosure of nature-related financial information.	We are one of only four water companies who started adopting the framework that helps integrate nature considerations into governance, strategy and decision making. See page 79
7. EU Taxonomy	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 and scale up sustainable investment.	A baseline assessment was completed in 2022/23 and 23/24. We have assessed the portion of our revenues and expenditures aligned with the EU Taxonomy for Sustainable Activities, to quantify the activities which contribute to two environmental objectives: 'climate mitigation' and 'sustainable use and protection of water and marine resources'. The EU taxonomy assessment was externally verified by 'Anthesis' ESG consultancy last year and concluded that for the 2022/23 financial year, 100% of Affinity Water activities were eligible under the EU taxonomy guidelines. Based on financial KPIs, 81.76% turnover, 81.06% capital expenditure and 81.76% operating expenditure were classed as aligned with EU Taxonomy and can be considered environmentally sustainable.
8. Sustainable Development Goals	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 also use them as framework in our Green Investment Framework as common language for sustainability used by financial institutions to enable green financing See page 63
9. Principles of Responsible Investment	Our owners, DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Capital Partners on behalf of the Allianz Group, all follow the Principles of Responsible Investment ('PRI') – the world's leading proponent of responsible investment. We align to these principles and report annually on our ESG performance.	Through our ESG reporting to investors we are helping to incorporate ESG factors into their investment and ownership decisions and help assess the safety of their investment in the asset.

Our approach to sustainability continued

Where we want to be

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

We need to take action and raise awareness on issues that affect us all, for example, the impacts of climate change, the need for a positive relationship with nature and treating everyone with fairness and respect. We've chosen to reference the UN's Sustainability Goals within our reporting to reflect this broader sustainability context and our responsibility for being part of the solution. Further details can be found on page 63.

Our approach

In 2024/25 we took further steps to ensure strategic focus and direction is given to sustainability by:

- starting to articulate the value created through the above three themes;
- incorporating ESG themes and indicators across our planning and operational activities and through our relationships with shareholders, customers, suppliers, and other stakeholders;
- increasing awareness and ownership of ESG issues throughout our business and our culture;
- actively managing and mitigating ESG risks and working to embed ESG into our company risk management processes.
- engaging with the Board through ESG Committee with responsibility for providing leadership on ESG and driving awareness and ownership of ESG issues and measurement throughout the organisation.

Sustainability governance

The Environment, Social, Governance ('ESG') Board Committee is established to ensure strategic focus and direction is given to sustainability matters at Board level, performance is regularly monitored to maximise opportunities to increase both public and shareholder value and enhance outcomes for customer, communities and natural environment.

ESG topics and how they relate to us



Environment

Stewarding and protecting natural environment resources and assets

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

Social

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

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

Governance

How we operate and govern ourselves as a company

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

Our 2025-2030 business plan (AMP8)

In September 2023, we submitted our business plan for the five-year period 2025-2030. In July 2024, we received a Draft Determination which we responded to by making compelling, evidence-based representations to our regulator Ofwat. To this effect, in December 2024 we received a favourable Final Determination that enables sufficient investment and a balanced risk and reward outlook. Over the next five years, we will deliver a £2.3 billion investment programme, designed to make sure we can continue to provide high-quality, sustainable and affordable water services for our customers now and in the future. Our business plan is ambitious with some stretching targets, but by focusing on our performance commitments, rising to the challenges and working together as one team, we will deliver for our customers, communities and stakeholders as a forward-thinking provider of essential water services.

Our long term ambition for AMP8

Over the following pages we talk about each of our long-term ambitions in more detail.

2025



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
-
- Install 400,000 smart meters (reaching one third of all customers) to help customers control their usage. Our smart metering pathfinder trial has installed the first 20,000 meters into household properties in Harlow and Bishop's Stortford
 - Deliver a substantial programme of water quality treatment upgrades to further improve levels of treatment and resilience. In 2025-26, we will carry out over 300km of mains flushing as part of our Distribution Operation Maintenance Strategy to remove aluminium deposits and improve the internal condition of our pipes. We'll also commence our PFAS programme of works including trialling Granular Activated Carbon ('GAC') plant to remove PFAS at our sites
 - Expand the rising block tariff trial to support more customers with lower bills and reducing demand. We'll apply the learnings and findings from the WaterSave trial (2023-2025) to develop a fairer, more affordable way of charging
 - Provide a broad package of support for customers struggling to pay, including payment plans to spread costs out and match the frequency of bill payment with frequency of income. We'll help around 17,000 income-deprived customers through payment matching and will expand our LIFT social tariff to around 150,000 customers



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
-
- Develop our public value positioning and enhance our programme of collaborative working with community and local government and charitable organisations
 - Increase river enhancement opportunities to support biodiversity and flood management within the Colne Valley. We'll identify and develop a further 33 river restoration projects to take place across 19 chalk streams within our supply area
 - Provide funding for community projects and support local communities and charities by promoting staff volunteer days. Volunteering will give our colleagues a better understanding of the regional issues faced by our customers and how we can respond to customers' diverse needs and experiences
 - Improve our visitors' experience by enhancing our public access sites. This will include catering and water sports by third parties and partners, improving accessibility at our Lakes & Leisure sites and working with our partners to responsibly manage vegetation to improve the appearance and accessibility of sites. We'll also establish an internal Lakes & Leisure Steering Group to manage and monitor ongoing improvements to sites



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
-
- Protect key assets from single point failures by allocating investment to address emergent risks. In 2025-26, we'll allocate £1.59 million to address infrastructure single point failure risks. Our Connect 2050 schemes will also enhance supply resilience and support our Water Resources Management Plan ('WRMP') and Water Industry National Environment Programme ('WINEP') sustainability reduction plans
 - Increase network calming to help reduce leakage and the cost of investing in replacement pipes. In 2025-26, we will create over 20 new pressure management schemes and implement additional optimisations in existing pressure managed areas. We'll also deploy a number of permanent transient loggers in strategic points of our network
 - Collaborate with our partners, communities and stakeholders to develop the Grand Union Canal Transfer scheme, which will deliver a sustainable and reliable water supply for the future and reduce our reliance on other water sources, including unique chalk stream habitats
 - Reduce total water demand by 50 million litres a day by 2030 from a 2025 baseline. This equates to a 4.5% reduction in total demand. We'll do this by undertaking household and non-household water efficiency visits, fixing internal plumbing losses and driving behaviour change with smart meter customers to reduce use



Environment

Leave the environment in a sustainable and measurably improved state.

- End unsustainable abstraction from chalk groundwater sources
 - Achieve Net Zero for operational emissions by 2030 and all carbon by 2045
 - Deliver a net gain in Natural Capital
-
- Reduce operational carbon emissions by investing in energy efficiency. We'll continue with our transition to electric vehicles and deliver carbon literacy training to maximise the opportunities for carbon reduction across our organisation
 - Deliver a programme of catchment and nature-based solutions to improve the wider river environment. This includes river restoration schemes to protect and enhance the precious chalk streams in our region, making them more resilient to environmental pressures such as low flows and pollution. We'll also work with farmers to improve their soil health and manage pollution risks
 - Deliver an investment programme that reduces the water taken from chalk aquifers by 35 million litres per day over the next five years. We'll invest in several large-scale trunk main and booster pumping station schemes which will allow bulk transfer of water into areas where abstraction reductions will introduce a shortfall in supply. We'll also deliver a new 10ML storage reservoir at Hadham
 - Deliver £95 million of leakage reduction investment which will take us to a 31% overall reduction as we continue on our path to reduce leakage by 50% by 2050 (against a baseline from 2020). 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

2030

Aim:

Deliver what our customers need, ensuring affordability for all.

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

Objectives:

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

Our customer objectives

1. Exceed customers' expectations for drinking water

- Met water quality standards on compliance failures by scoring less than two in the DWI's water quality measure Compliance Risk Index ('CRI').
- Maintained the rate of customer contacts about appearance, taste and odour at less than 0.67 per thousand population.
- Completed 195km of mains cleaning activities which will help to reduce instances of discoloured or turbid water supplies.
- Began our risk-based reservoir inspection programme to ensure greater resilience of our water storage sites.
- Carried out the replacement of lead communication pipes and supply pipes to remove as much lead as possible from our communities.
- Water quality contacts – continued our work on stable distribution networks, returning mains to service and responding quickly to clusters of contacts.
- Began research and development activities related to PFAS to ensure we're set up to make informed decisions about what is needed and where.
- Reduced supply interruptions to customers to less than five minutes.
- Achieved our commitment for no more than 320 properties per year to be affected by a supply interruption of more than 12 hours duration.
- Achieved our commitment to reduce the average time each property experiences low water pressure.
- Achieved our commitment to reduce the number of mains repairs to less than 142.3 per thousand kilometres of network.

Case study

Save Our Streams- the largest water sector behavioural change campaign

Our supply region has one of the highest per capita consumption ('PCC') rates in the country. Additional factors like a growing population and climate change add to the challenge to reduce water use.

In 2024, we launched the next phase of our Save Our Streams campaign to empower customers to build lasting water-saving habits that save them money and seamlessly fit into their everyday lives.

We identified three key barriers to water saving: customers were

unaware of how much water they were using; they lacked the knowledge and tools to reduce their consumption, and they saw water saving as a disruption to their lifestyle.

Our approach then focused on educating customers about their household usage and demonstrating the simple ways they can save water and money. Using a combination of advertising, social and digital media, tailored emails, plus PR featuring high-profile ambassadors, influencers and

charitable partnerships, we were able to change customer behaviours.

84% of our customers are now aware of our Save Our Streams campaign and more than 360,000 customers have signed up. Our customers' water-saving efforts have saved over 20 million litres per day (flow rate reduction).

We've also built partnerships with the Royal Horticultural Society and we partnered with Sam Proctor from Chiltern Garden Design to create 'The Water Saving Garden' for the 2024 RHS Chelsea Flower Show, which received a bronze medal.

affinitywater.co.uk/saveourstreams

affinitywater.co.uk/watersavinghouse



2. Personalise our services to support different needs and wants

- Used a range of channels to educate, inspire and motivate customers to use less water, including our leaks visits and home visits and influencer content.
- Worked with our Independent Challenge Group to ensure that our business plans and ongoing day-to-day operations meet customers' expectations.
- Deployed accessibility tools on our website such as Recite Me and interpreter services for language and British Sign Language.
- Increased our Priority Services Register from 2.5% of our household customer base to over 12%, helping us proactively assist more of our customers in vulnerable circumstances by understanding and prioritising their needs.
- Developed and secured investment for our Customer Transformation programme, which will develop personalised content and messages and create new digital experiences to better serve our customers and colleagues.
- Increased the number of customer email addresses we have by more than 49,000 and the number of customer mobile phone numbers we have by more than 50,000 through our data cleanse and acquisition programme.
- Over 1,450 leak fixes through our leak visit initiative.
- Over 15,600 home visits.
- Over 50,000 sign-ups for My Water Footprint, helping customers to make simple water-saving switches to save money on their bills and claim free water-saving devices.
- Over 24,000 water-saving devices sent to customers.

Case study

WaterSave Tariff trial - a new way of charging

In October 2023, we became the first water company in England and Wales to trial a new-approach tariff for how customers are charged based on how much water they use. With our rising block tariff, we want to explore how changing the way we charge for water could be fairer and more affordable and if customers are encouraged to use water more wisely. A rising block tariff charges more per volumetric unit of water for each subsequent block of water used. Our tariff design includes a free initial block, to assist affordability.

We are measuring the effects of the new tariff by comparison of a trial group and control group. The trial group is made up of around 1,500 AMR metered customers in the Stevenage area in Hertfordshire. These customers are receiving additional communications from us throughout the trial, for example updates on how much water they are using, and so our trial is testing both the price change and an enhanced communication package.

Before the trial started, we expected at least two out of three customers to be better off on the new tariff, if usage remained unchanged. Meter reads in the first year of the trial showed we could expect more like three out of four customers to see some reduction to their clean water bill. When we compare those customers who pay on receiving their bill from us, we also see that the rate at which arrears are being cleared is faster in the trial group than the control group. Therefore, we are seeing evidence of affordability improvement.

We also see an encouraging demand response from our provisional first year results. In both methods of measuring demand effect – using actual meter readings and using our modelled demand tool – we see evidence that the new tariff is changing customer usage behaviours.

At the mid-point of the trial in October 2024, we commenced a customer research project

with Blue Marble Research to help us understand customer attitudes and lived experience of the new tariff. Findings showed us that rising block tariff was generally accepted by those participants in the trial, however all participants had concerns that larger households and vulnerable customers could be worse off.

Looking ahead, we are exploring an expansion of the WaterSave Tariff to up to 120,000 household metered customers. We will continue to work with our customers, regulators and stakeholders to consult on our plans for the next phase of the trial, following the end of the trial in September 2025. We will also continue to share our learnings and findings with the industry.

affinitywater.co.uk/billing/watersavetariff



3. Take care of our vulnerable customers and ensure affordability for all

- Over 121,000 customers received support for their bills through our Low-Income Fixed Tariff ('LIFT').
- Proactively identified over 9,000 customers in our most deprived areas for our LIFT tariff.
- Over 181,000 households now registered on our Priority Services Register.
- Over 60,000 households supported with a water assistance payment of £50.
- Published our Draft Vulnerability Strategy in June 2024, with final document to be published in June 2025.
- Gathered evidence from our WaterSave Tariff trial (2023-2025) to understand if this is a fairer way to pay and improves affordability for our customers.
- Supported local charities and communities including Red Shed, Herts Vision Loss and Hemel Morning Deaf Group, and attended community events across our supply area including Foodbank.
- Developed partnership with Kidney Care supporting over 165,000 customers living with chronic kidney disease.
- Launched new debt support scheme called Payment Matching, in addition to Crisis Fund.
- Completed training with the charity Surviving Economic Abuse.
- Worked with 13 referral partners for water assistance payments, including all Citizens Advice Bureau offices.
- ISO standard 22458 or equivalent (Consumer Vulnerability) held since 2019 and renewed each year, certifying that our services are accessible and supportive for all.
- Partnered with wastewater providers to enrol our customers into assistance schemes operated by others.

Case study

Supporting Herts Vision Loss - in support of customers' needs

We work in partnership with Herts Community Foundation, who manage a charitable fund on behalf of Affinity Water, to support local projects in the community. These projects help us to build a deeper understanding of our customers' needs and ensure we can respond to customers' diverse needs and experiences, for instance through tailored support.

In March 2025, we engaged with Herts Vision Loss ('HVL') whose mission is to 'Support and empower those people in Hertfordshire with visual impairment'. They do this by providing a comprehensive range of services, enabling these individuals to live happy, functional and fulfilling lives. HVL services include information, advice, advocacy, counselling, assistive technology, home visits, a befriending service, social and support groups, as well as support to patients at low vision and hospital eye clinics across Hertfordshire.

The donation we offered to the charity will help to further empower blind and visually impaired individuals by providing them with access to the latest assistive technologies, including

iPads, high tech readers, OrCam specs and bumpons. HVL will use this equipment in weekly interactive workshops which are designed to help blind and visually impaired individuals explore and familiarise themselves with assistive technologies. The Visionary Tech Hub sessions will provide personalised support, helping participants learn how to use these tools to access information, communicate effectively and maintain independence.

By staying up to date on the latest technological advancements, participants will benefit from enhanced independence, improved communication and increased

opportunities in education, employment and social inclusion.

Through our partnership with HVL we aim to create a more inclusive community, where blind and visually impaired individuals can fully participate and thrive.



Aim:

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

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

Objectives:

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

Section 172(1) statement

Stakeholders we generate value for Stakeholders that influence what we do

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 (regulators, communities, environmental groups, suppliers, political representatives).

How the Board had regard to the company purpose, the matters set out in section 172(1) of the Companies Act 2006, and the interests of stakeholders in reaching key decisions and considering their impact.

We focused on the following four areas: the environment; supply and demand; water efficiency; and vulnerability, with the aim of gathering information to inform our current and future strategy.

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

Affinity Water's stakeholders



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

- A** The likely consequences of any decision in the long term;
- B** The interests of the company's employees;
- C** The need to foster the company's business relationships with suppliers, customers and others;
- D** The impact of the company's operations on the community and the environment;
- E** The desirability of the company maintaining a reputation for high standards of business conduct; and
- F** The need to act fairly between members of the company.

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

The company approach to stakeholder engagement is:

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

The Board's role in stakeholder engagement is to:

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

In 2024/25, each Board Committee's Terms of Reference were reviewed by the relevant Committee to ensure that consideration of section 172 factors and Ofwat's 2019 Board leadership, transparency and governance (BLTG) principles were appropriately addressed. Directors are reminded of the section 172 requirements at the start of every Board meeting. The Board reviews and approves the Matters Reserved to the Board annually.

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

These can be accessed on our website at affinitywater.co.uk/corporate/about/governance-assurance

Step 1

Engagement strategy

Set vision and level of ambition for future engagement, and review past engagement

Step 2

Stakeholder mapping

Define criteria for identifying and prioritising stakeholders, and select engagement mechanisms

Step 3

Preparation

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

Step 4

Engagement

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

Step 5

Action plan

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

Priorities ahead

As we complete AMP7 and prepare for AMP8, the Board has identified key priorities to ensure a seamless transition and successful delivery of our long-term commitments:

- Deliver on our AMP7 objectives, maintaining momentum and building a strong foundation for AMP8.
- Ensure our AMP8 plan is robust, ambitious, and achievable, with confidence in its deliverability.
- Seamlessly transition into AMP8, ensuring operational and financial readiness.
- Drive performance and innovation in AMP8, delivering on our commitments to customers, communities, and the environment.

Key decisions made in 2024/25

We set out below key decisions made in 2024/25 and the Board's consideration of section 172 factors in making these. Refer to page 31 for further information on matters considered by the Board in 2024/25.

Water Resources Management Plan and regional plans

We are pleased to announce that following approval by the Secretary of State for the Environment, we have now published our final Water Resources Management Plan 2024 (WRMP24). This plan sets out a clear roadmap for securing a resilient, sustainable, and efficient water supply for the communities we serve between 2025 and 2075.

Our WRMP24 was developed in collaboration with other water companies through the Water Resources South East ('WRSE') and Water Resources East ('WRE') groups. This coordinated approach ensures that our regional planning aligns with national water strategies and that resources are managed efficiently across the industry.

A key element of this collaboration is the Grand Union Canal Transfer, a strategic resource option that will enhance regional water resilience. The launch of our WRMP24 gained significant media coverage

and engagement, including two parliamentary events attended by company representatives, MPs, and key stakeholders, reinforcing our industry's shared commitment to long-term water security.

Looking ahead

Our WRMP24 represents a bold step forward in securing water for future generations. Through smart investments, innovation, and collaboration, we are committed to delivering a resilient, sustainable, and affordable water supply while protecting the environment.

We will continue to engage with customers, regulators, and stakeholders as we implement these initiatives, ensuring that our strategy evolves to meet future challenges.

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

The Board approved the 2024/25 annual budget and ten-year base-case cash flow forecast after a thorough review of our strategic priorities and business risks, ensuring we are well-prepared for AMP8. As part of this process, the Board assessed company viability, stress testing, and key assumptions, particularly in response to ongoing energy price fluctuations and rising living costs. Our budgeting approach combined both bottom-up and top-down methodologies.

A bottom-up approach engaged cost centre managers across the business to ensure operational alignment. A top-down approach incorporated shareholder perspectives and factored in Ofwat's Final Determination, aligning financial planning with both regulatory requirements and shareholder objectives.

Approved the 2024/25 workforce pay settlement

In 2024/25, the Board reviewed progress of pay negotiations with trade unions. The Board considered the importance of creating value for shareholders, while balancing the need for investment in the workforce and the ongoing energy and cost-of-living crisis. Employees were consulted through their trade unions, of which all employees are entitled to be a member. The Board concluded that it was in the best interests of the company to support the CEO's decision to approve the proposed pay increase of 3.3% in order to increase employee engagement, retention rates and productivity, leading to increased value creation.

PR24 Final Determination

We accepted Ofwat's Final Determination for our 2025-2030 business plan. This plan will help us deliver high-quality, affordable, and sustainable water services for the future.



Section 172(1) statement
continued

Customers

Current and future customers, including household and non-household customers, and other market participants such as developers, retailers, companies contracted to install infrastructure under self-lay arrangements and other companies appointed to provide water and sewerage services (NAVs).

Why engagement is important

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

How the company engages

- Daily contact with customers
- Customer research programme
- Public meetings
- Our website
- Media and social media
- Through our ICG
- Providing fair and affordable bills
- Supporting customers in vulnerable circumstances through social tariffs and Priority Services Register.
- Through our digital platforms: enhancing online access for customer self-service and real-time updates.

How the Board engages

Our Board remains committed to upholding transparency, accountability, and strategic oversight.

Information reported to the Board

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

Customers continued

Direct engagement mechanisms

- There is a clear reporting line to the CEO and accountability for arrangements regarding handling customer complaints.
- Engagement with partnership groups to further support customers (National Debtline, StepChange, Citizens Advice Bureau (CAB) and our website signpost Turn2us and Money Helper for financial assistance and guidance.
- Supporting customers in vulnerable circumstances, addressing local needs and promoting social well-being by collaborating with various charitable organisations to support community initiatives.

Customer protection

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



Communities

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

Why engagement is important

These groups bring distinctive perspectives and influence on key environmental and social issues on behalf of customers and the public. By engaging with them, we strengthen trust, enhance our reputation, and create opportunities for meaningful partnerships that contribute to sustainable water management and environmental conservation.

How the company engages

- Joint forums- Facilitating discussions with key stakeholders on water sustainability
- Public meetings - Engaging local communities to address concerns and share updates
- Consultation meetings for business plan development
- Catchment partnerships - Collaborating on river and land conservation projects
- Water resources monthly email updates
- Volunteering days to help local communities and charities

How the Board engages

Information reported to the Board

- Throughout 2024/25 the Board remained actively informed about key community and environmental matters, including:
- Water Resources Management Plan - Reviewing stakeholder consultation findings and progress updates
 - Water resource levels and drought management – Receiving regular reports on rainfall, groundwater conditions, and potential drought response measures, such as hosepipe restrictions
 - Community project updates – Monthly insights into social impact initiatives and engagement efforts.

Direct engagement mechanisms

- Our Board oversees and approves our Community Engagement Strategy and activities are focused around three core areas:
- Protecting rivers and habitats - Supporting conservation efforts to safeguard ecosystems.
 - Investing in science, technology, engineering and mathematics (‘STEM’) and future skills - Encouraging innovation and career development in water-related industries.
 - Developing community partnerships

Communities continued

Progress in 2024/25

- Over the past year, we have deepened our commitment to social impact and stakeholder engagement through:
- Affinity Days – A volunteering initiative that connects employees with local communities. Activities have included river clean-ups, fundraising, assembling community aid packages, and habitat restoration projects.
 - Environmental partnerships – We work within Catchment Partnerships to improve and protect local chalk streams across our supply area, enhance local nature reserves and support biodiversity efforts. This includes Herts and Middlesex Wildlife Trust, Chilterns Chalk Stream Project and Groundwork South. Expanding our educational outreach by developing Water Smart Education Programme, a school initiative aimed at promoting water conservation. In collaboration with educational specialists, we have designed a programme to engage primary schools across our region with curriculum-based water-saving educational materials.



Section 172[1] statement continued

Employees

The workforce, including both employees and the wider workforce

Why engagement is important

Our success is built on the talents, skills, and shared values of the people who work for our company. To achieve our strategic objectives, we must continue to attract, develop, and retain a skilled and diverse workforce that reflects the communities we serve.

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

How the company engages

Throughout 2024/25, we have strengthened our employee engagement efforts through a variety of channels, including:

- Senior leadership forums by providing employees with direct access to leadership for updates and discussions.
- Engagement 'Tap in' surveys and regular pulse survey and results shared in an all company newsletter.
- Monthly one-to-one meetings and personal best check-ins supporting career development and performance management.
- CEO podcasts and communications, company announcements – keeping employees informed on company progress and priorities.
- Diversity, Inclusion and Dignity at Work Steering Group driving an inclusive workplace culture.
- Designated Board Director for Employee Engagement – ensuring employee concerns are represented at Board level.
- Internal communications and monthly team leader briefings communicated to all line managers.
- Company-wide live events, including roadshows and Connect Days with market stalls to engage employees across all departments.
- Customer delivery roadshows to update front-line operational teams on company performance and future plans.
- Enhanced new starter and training programmes – expanding onboarding and leadership training initiatives.
- Mandatory e-learning and inclusion training – reinforcing our commitment to a diverse and respectful workplace.

Employees continued

How the Board engages

Information reported to the Board

The Board remains committed to fostering a positive workplace culture and receives regular updates on key workforce matters, including:

- Cultural transformation across the business. Culture Ambassadors represent different departments.
- Training & development – reviewing learning participation, skills development, and career progression opportunities.
- Wellbeing, health and safety - updates on productivity, attrition, health and safety, and feedback from exit interviews.
- Whistleblowing incidents are reported to the Board, ensuring all concerns raised are thoroughly investigated, with external reviews conducted where necessary.

The workforce, including both employees and the wider workforce

Direct engagement mechanisms

- Chris Newsome, Director of Employee Engagement, continues to ensure that the workforce's voice is heard at Board level. His role also enhances transparency, aligning Board decisions with workforce expectations. A key secondary purpose is to improve the transparency of Board activities, discussion and decision-making and in so doing improve alignment between the Board and the workforce. Chris is a member of our Equality, Diversity and Inclusion Committee, established to bring to life our commitment to build a more inclusive culture, allowing all members of our workforce to bring their true selves to work.
- All of our workforce are entitled to be trade union members. The company's CFO and Director of People and Culture were members of the Joint Negotiation and Consultative Committee ('JNCC') during the year which, together with employee trade union representatives and other company nominated representatives, meets quarterly to consult on workforce practices and policies and negotiate workforce pay.
- Keith Haslett, as CEO, has continued to meet employees across the business recognising their contributions and gaining first-hand insight into operational challenges and opportunities.
- Don't Walk By campaign – continue raising awareness and reinforcing our zero-harm ambition across all sites and teams.

Workforce policies and practices

- Refer to the Governance Report for further detail on workforce policies, workforce concerns, and Board actions on gender equality and reducing our gender pay gap.

Employees continued

Key workforce achievements in 2024/25

- Progress on Gender Pay Gap – continued reduction in the gender pay gap, demonstrating our commitment to workplace equality.
- Strengthening industry partnerships – collaborating with the Women's Utilities Network to support women in building long-term careers in the utilities sector
- EDI Commitment & Code of Ethics – continuing to develop equality, diversity and inclusion strategy to reinforce our workplace values.

Shareholders

Owners of shares in the company

Why engagement is important

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

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

How the company engages

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

How the Board engages

Information reported to the Board

- Ensured alignment with Ofwat's governance principles, with details available in our updated 'Engaging with our Shareholders' publication on the governance and assurance section of our website.
- The Board engaged directly with shareholders in setting and approving the budgets, discussing the viability statement and results of stress testing on financial covenants.
- Continued discussions on Board composition and governance enhancements, following recommendations from an independent Board evaluation.

Regulators

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

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

Why engagement is important

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

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

How the company engages

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

How the Board engages

Information reported to the Board

- The Board receives monthly updates on regulatory and relevant political developments, and regulatory consultations and requests for additional information.
- The Board receives monthly updates on correspondence with regulators, including communications with Ofwat.
- Updates on the development of our 2025-2030 as we transition into AMP8.

Direct engagement mechanisms

- The Board engaged with Ofwat during site visits including a visit to include Chaul End, Minworth, Grand Union Canal, Hatfield and the Integrated Control Centre, to discuss future plans WRMP24, the Water Industry National Environment Programme ('WINEP') and PR24.
- The Board engaged with Ofwat consultations on PR24 draft methodology and Financial Resilience and provided Ofwat with updates on our leakage performance.
- Non-Executive and shareholder directors attended key Ofwat-led events throughout the year.
- The Board received updates on proposals to submit to Ofwat for Innovation Competition funding, including further developments in our Water Neutrality project, following previous success.
- The CEO had meetings with the EA, Ofwat and the DWI on operational events, risk assessments and the impact on ODIs and abstraction licences.
- Delivery Steering Group and monthly performance reviews to drive the achievement of performance commitments in AMP, ensuring readiness for AMP8.
- Throughout 2024/25 the CEO had meetings with Ofwat representatives to discuss rising energy costs, financial resilience and hedging for PR24.
- The Board attended forums held by the CCW.

Section 172(1) statement continued

Environmental bodies

Why engagement is important

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

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

How the company engages

- Water Resources Management Plan ('WRMP').
- Catchment management to ensure sustainability of our water sources.
- River restoration programme that is comprehensive.
- Company Environmental Policy to ensure we meet our purpose to provide high-quality drinking water for our customers and take care of the environment.
- Supporting local community and environmental groups for initiatives such as river clean-ups.

How the Board engages

Governance arrangements:

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

Providers of finance and credit rating agencies

Why engagement is important

It is imperative that we maintain effective relationships and ongoing dialogues with our banks and credit rating agencies to ensure access to financial services as well as capital markets. Successful engagement ensures we continue to deliver reliable returns and remain transparent in our reporting.

How the company engages

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

How the Board engages

Information reported to the Board

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

Direct engagement mechanisms

- The CFO, on behalf of the Board, met with lenders and credit rating agencies during the year to discuss the company's financial performance and plans.
- The Board approved a 364-day extension of the revolving credit facilities
- Refer to note A4 of the statutory financial statements for further information on our risk management processes and the Board's role in these.

Climate change

The Board considers climate change in four key areas:

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

Supply chain

Why engagement is important

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

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

How the company engages

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

How the Board engages

Board's involvement in the agreement of supplier terms:

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

Direct engagement mechanisms

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



Aim:

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

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

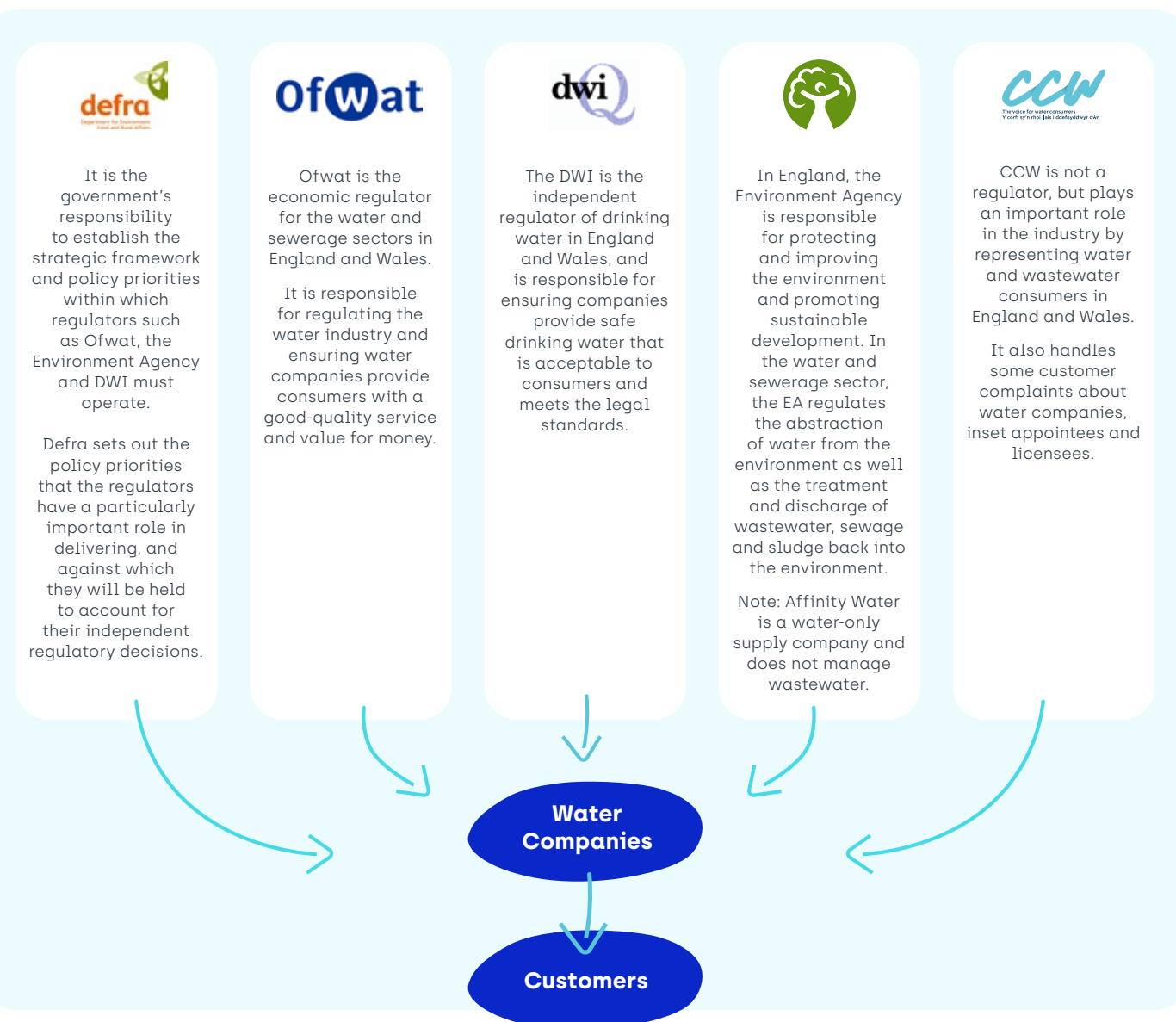
Objectives:

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

Our external environment

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

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



Our planning horizons

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

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

1. What the material issues are, both in terms of the level of interest to stakeholders and the effect they may have on our ability to create value;
2. Our assessment of risks and opportunities; and
3. Our environmental, social and governance ('ESG') commitments, including our Net Zero transition plan;

Short-term planning

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

Medium-term planning

In August 2023, we submitted our next five-year plan (for 2025-2030). We received the Final Determination by Ofwat in December 2024.

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

Long-term planning

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

Case study

Grand Union Canal Transfer

The canal network has transported people and goods for over two centuries. We want to use the canal network to help transfer recycled water from the Midlands to the South East, to supply those regions where there will be a deficit of water in the future.

The Grand Union Canal Transfer is key to delivering a sustainable and reliable water supply for the future and reducing our reliance on water from other sources, including unique chalk stream habitats.

We are delivering this scheme in partnership with Severn Trent Water and the Canal & River Trust. Collaboration is key to ensuring successful delivery – not only with our partners but with the communities and stakeholders along the route.

We are making good progress through the planning stages which includes extensive environmental and site surveys. We conducted a public consultation with communities and stakeholders along the route in September and



October 2024, to understand their views and concerns and identify opportunities that can be delivered as the scheme develops. 780 people attended our consultation events and we received 475 responses.

This nationally significant infrastructure scheme will deliver up to 115 million litres of water to Affinity Water customers. The scheme is planned to be operational by the end of 2032.

guctransfer.co.uk/

Our external environment continued

Looking at the future – the challenges and opportunities we face

1. Affordability and vulnerability

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

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

We have of the highest take up of social tariffs across the industry, with over 127,400 customers benefiting from our additional support. We are continuing to promote the support we have available, and work with partners to communicate to hard-to-reach groups. We began a rising block tariff trial in summer 2023 to support the twin aims of affordability and water conservation.

Link to strategy:  

Affected stakeholders:  

Our response:

 Read more [WaterSave trial](#) on page 28

2. Securing long-term resilience

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

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

Link to strategy:   

Affected stakeholders:     

Our response:

 Read read about WRMP section at affinitywater.uk/engagementhq.com/wrmp

5. Acting in the public interest

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

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

Link to strategy:  

Affected stakeholders:     

Our response:

 Read read about [Our approach to sustainability](#) on page 20

6. Acting in the public interest

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

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

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

Link to strategy:    

Affected stakeholders:     

Our response:

 Read read about [Grand Union Canal Transfer section](#) on page 41

3. Climate change

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

The National Infrastructure Commission estimates there is a 25% chance of the worst drought in history happening by 2050, which could cost our economy £40 billion. To support government understanding of the climate risks and adaptation actions we submitted and our updated Climate Change Adaptation report to the Department for Environmental Food and Rural Affairs ('DEFRA').

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

Link to strategy:    

Affected stakeholders:     

Our response:

 Read about [adaption plans](https://affinitywater.co.uk/docs/reports/2024/ARP4-Affinity-Water-Climate-Change-Adaptation-Report-2024.pdf) to climate change at affinitywater.co.uk/docs/reports/2024/ARP4-Affinity-Water-Climate-Change-Adaptation-Report-2024.pdf

4. Protecting the use of natural capital

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

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

Link to strategy: 

Affected stakeholders:    

Our response:

 Read about [sustainable supplies](#) on page 62

Key



Customers



Suppliers



Regulators



Shareholders



Communities



Employees



Supplying high-quality water you can trust



Providing a great service that you value



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



Minimising disruption to you and your community

Financial review

I am pleased to present my first financial review as Chief Financial Officer since joining in January 2025. It is an exciting time to be part of the company, and we have achieved a lot in my first three months in role. I look forward to collaborating with the team to strengthen our financial position while delivering lasting value to our customers, stakeholders, and the environment."

Adam Stephens
Chief Financial Officer



Highlights

- We announced a £150 million unconditional committed equity in February 2025.
- Our credit ratings were reaffirmed in February 2025 as A3/BBB+/BBB+.
- We issued a £350 million Green Bond in March 2025.
- Our financial covenants were met as at March 2025 with strong headroom and liquidity.
- These actions underpin our strong financial resilience, creditor friendly capital structure and one of the best credit ratings in the sector.
- We were once again awarded the Fair Tax Mark certification.

This report provides an overview which outlines key financial metrics, operational highlights, and the strategic priorities that will shape our future. In February 2025 we announced that our shareholders had made an unconditional and legally binding commitment to inject £150 million of equity into Affinity Water Limited by 31 March 2026. This substantial financial contribution underscores their confidence in Affinity Water's long-term strategy and re-enforces their dedication to ensuring the success of our business. The equity injection will strengthen our financial resilience and enable the efficient execution of our investment plan.

Following our acceptance of the Final Determination and equity announcement, in early 2025, we entered the Sterling bond market, successfully raising £350 million in a hugely successful transaction. This was the first public UK sterling benchmark bond issuance by any water company post the Final Determination. The bond issued with a 15.5 year tenure, at a coupon of 6.25% and was structured as a green bond aligned with our Green Finance Framework, supporting environmentally positive activities. The issuance was met with strong investor demand, reflecting confidence in our relatively lower business risk profile compared to wastewater peers, strong credit

ratings, and vanilla creditor-friendly capital structure.

As we transition into AMP8 after accepting Ofwat's Final Determination in February, our focus on financial discipline and transparency will remain at the heart of our approach as we navigate evolving regulatory expectations and economic conditions. I am confident that, with a strong financial foundation and a clear strategic direction, we will continue to deliver for our customers and communities.

Final Determination

Our Final Determination sets out a comprehensive investment programme of £2.3 billion, designed to ensure the long-term sustainability, resilience, and affordability of our water services for the diverse communities we serve.

Our Final Determination package represents a significant improvement on the Draft Determination, particularly in the area of enhancement funding and the balance of risk and return.

Credit Ratings: Acknowledging Our Strong Position

As part of our ongoing commitment to financial resilience, we are pleased that our strong credit ratings have been affirmed, which stand as a reflection of Affinity Water's stability and prudent financial management. Our credits are A3/BBB+/BBB+, our Moody's A3 rating is the highest in the sector. These ratings underpin our ability to access capital efficiently while managing risk, ensuring that we are positioned to meet our obligations and invest for future growth.

Commitment to Financial Resilience

In February 2025, alongside the announcement of our unconditional committed equity, the Board committed to maintaining gearing around 70% during AMP8. We see this level of gearing as a sustainable level for AMP8. We operate a Whole Business Securitisation ('WBS') and this approach ensures that our financing model is flexible, competitive, and robust, providing the strength necessary to navigate the challenges of the water sector. The provisions of the WBS are tighter than those of our licence and therefore offer greater protection to our customers.

Case study

Case study – Green Finance Framework - enabling sustainable investment

Our ambition is to reach 100% green financing, ensuring transparency and credibility. We aim to make sustainability principles more central to how we finance our business. Categories for eligible green projects include:

- Sustainable water and wastewater management
- Renewable energy
- Clean transportation
- Terrestrial and aquatic biodiversity conservation
- Energy efficiency

Over the past five years, sustainability linked bonds (Green bonds) have constituted 64% of total bond issues in water utilities in Western Europe in response to greater maturity of green metrics in both the EU and UK.

In 2021, Affinity Water published its first Green Finance Framework ('GFF'), compliant with the ICMA Green Bond Principles and LMA Green Loan Principles and issued our first green bond - a £130 million private placement bond (issue proceeds £147 million). The proceeds have been used to finance various expenditure outlined in our Green Finance Framework. The table to the right shows the proceeds allocated and impact of the expenditure in addressing our ESG concerns as of this financial year.

In March 2025 we successfully issued a £350 million green bond the first water company to issue a public sterling benchmark bond after Ofwat's Final Determination of our business plan for 2025-2030. This fast access to market in part reflects our credit

ratings which are now among the strongest in the sector.

The Green Finance Framework was revised in February 2025 and is aligned with our strategic and sustainability priorities with our funding and financial strategy. Green bonds raised under this framework are critical in embedding sustainability principles at the heart of our business allowing us to tackle climate change, enable transition to Net Zero and addressing other environmental challenges.

Green investment (£)	Universal metering (no)	Leakage reduction (Ml/d)	Benefits
46,964	150,143		We are installing more meters in properties empowering customers to reduce their water use
32,242		34.3 Ml/d	We are leaving more water in the environment to support our waterways



Financial review continued

2024/25 financial performance

This financial year ended 31 March 2025 marks a conclusion of AMP7. During this period, we faced impacts from ongoing weather events, inflationary pressures on energy, chemicals, and materials, as well as changes in water consumption patterns caused by the pandemic. Affinity Water has remained adaptable and is well-positioned for future growth.

Our financial results are prepared in accordance with Financial Reporting Standard 101: 'Reduced Disclosure Framework' ('FRS 101') and are summarised in the table below. For more information, refer to the basis of preparation of our statutory financial statements on page 179.

	2025	2024
	£m	restated £m
Revenue	363.6	347.7
Operating costs	(350.5)	(347.0)
Other income	20.2	21.1
Operating profit	33.2	21.8
Net finance costs	(50.9)	(54.4)
Fair value gain/(loss) on energy swaps	1.4	(13.1)
Loss before tax	(16.2)	(45.7)
Taxation	0.6	10.8
Loss for the year	(16.8)	(34.9)

Revenue

Revenue for the year increased by £15.9 million, [4.6%] to £363.6 million [2024: £347.7 million], primarily driven by inflationary tariff increases and increase in customer numbers.

Operating expenditure

Operating costs overall increased by £3.5 million [1.0%] to £350.5 million [2024: £347.0 million].

Energy remains one of our largest expenses due to the treatment and distribution of water to 3.99 million customers. To mitigate price fluctuations, we manage energy costs through an advance purchasing hedging strategy.

Bad debt costs increased during the year, driven in part by the ongoing cost-of-living pressures affecting some of our customers. However we continue to enhance collections processes and customer engagement, with a particular focus on supporting vulnerable customers to encourage timely payments and reduce aged debt.

Staff costs rose, following a 4.2% inflation-linked pay award. Depreciation decreased following a review of assets under construction to ensure accurate asset classification.

As a result, operating profit increased by £11.4 million [52.3%] to £33.2 million [2024: £21.8 million], as illustrated in the graph on page 47.

Finance costs

Net finance expense for the year was £50.9 million, a £3.5 million decrease [6.4%] [2024 £54.4 million], primarily due to lower inflation reducing non-cash accretion on index-linked debt and swaps. A fair value gain¹ of £1.4 million on energy swaps was recorded, mainly driven by changes in market prices.

Our hedging strategy protected us against peak energy prices of 2022 and 2023 but has delayed the benefits of recent lower prices.

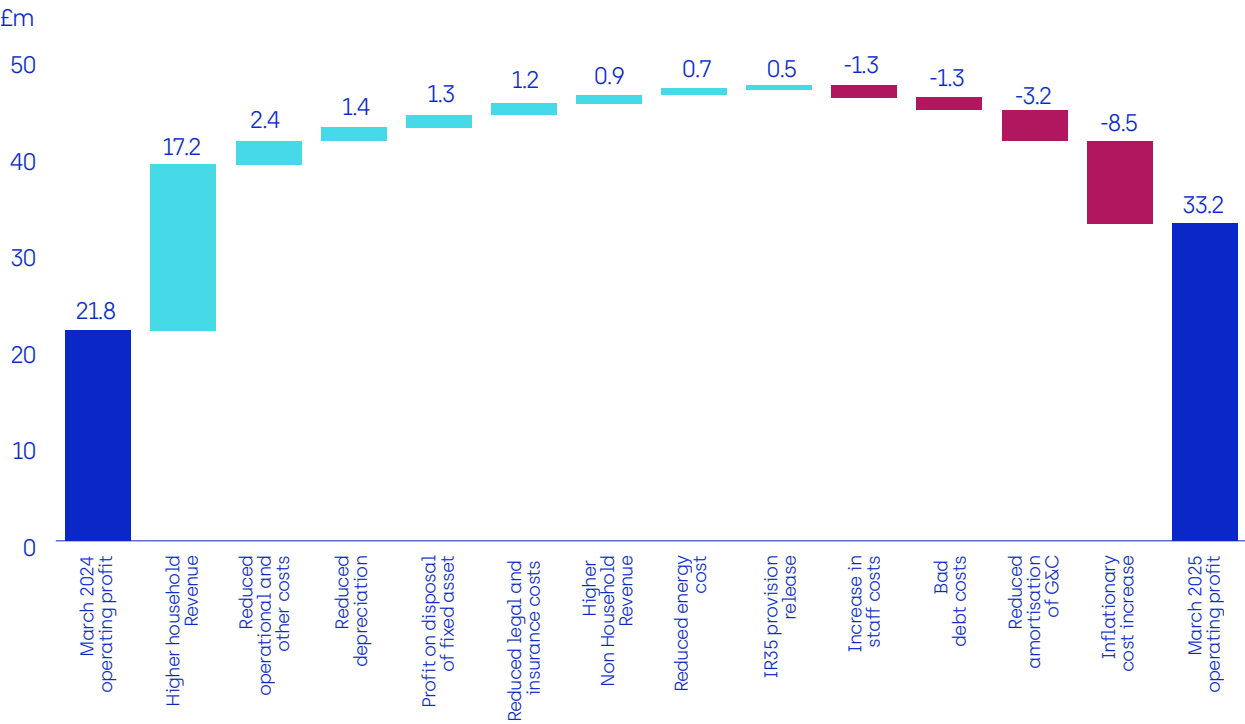
To align forecast energy costs with market rates, we undertook a one-off transaction with counterparties to re-strike trades and pre-pay price differences. This resulted in a £10 million finance cost during the year, restructuring existing trades without changing our overall risk position.

Loss before tax

The loss before tax for 2024/25 was £16.2 million, an improvement of £29.5 million [64.5%] compared to the prior year's loss of £45.7 million.

Pensions

The retirement benefit asset increased by £2.2 million in the year [4.7%] to £49.7 million [2024 restated: £47.5 million] due to the net performance of the underlying pension assets and liabilities.



Cash flow

Net cash flow before tax and financing² for the year was £32.6 million outflow, marking a £3.4 million decrease from the previous year (2024: £36.0 million outflow). This movement is mainly due to improved operational performance that supports our continued capital investment in line with our AMP7 delivery plans.

Net debt and gearing

Our gearing as measured by net debt to RCV at 31 March 2025 was 77.5% [2024: 74.6%].

Our net debt³ as at 31 March 2025 was £1,487.3 million, an increase of £105.0 million since last year (2024: £1,382.3 million), primarily driven by capital expenditure on our network. In addition, our index-linked bonds increased by prevailing RPI and CPI. This non-cash accretion is designed to match growth in nominal RCV and is included within net debt.

As we are a business with a long-term outlook and expenditure commitments, we need to match

this with long-term sources of debt finance. We consider the most cost effective way to raise long-term debt to be through the debt capital markets. Our financing subsidiaries have outstanding external bonds totalling £1,332.7 million, raised in the debt capital markets and on-lent to the company on the same terms.

Our AMP7 gearing is higher than some of our peers in the water industry. However, this is only one aspect of our financial resilience. Our gearing of 77.5% is below our internal maximum of 80% of RCV and materially below our trigger level of 90.0%. Going forward we have £150 million of legally binding and committed equity that will support deleveraging to around 70% for the rest of AMP8.

We have also reaffirmed our credit ratings of A3/BBB+/BBB+ for our Class A Bonds with Moody's, Standard & Poor's, and Fitch.

Dividends

No equity dividends were paid in the year [2024: £nil], reflecting the shareholders' commitment to re-

invest all planned returns from the company's appointed business for the benefit of our customers during AMP7.

Capital expenditure

Capital expenditure for 2024/25 was £205.9 million [2024: £159.1 million], focused on leakage management, mains renewals, water treatment, and integrated water savings programmes. Some of this expenditure was delayed from earlier years due to Covid-19 restrictions. The total capital expenditure also includes spend on HS2 schemes that have been fully compensated for.

Total expenditure

We have invested £1.25 billion during AMP7 of which £412.4 million was spent in 2024/25 [2024: spend of £375.8 million]. This investment ensures water resilience and supports sustainable abstraction in alignment with our WRMP for the 50-year period from 2025 to 2075.

Future investment AMP8

Over the next five years, we have committed to a £2.3 billion investment programme to ensure

Financial review continued

a sustainable water supply, addressing climate change, and supporting population growth. These investments will result in an increase in water bills for customers to fund necessary infrastructure upgrades and environmental protections

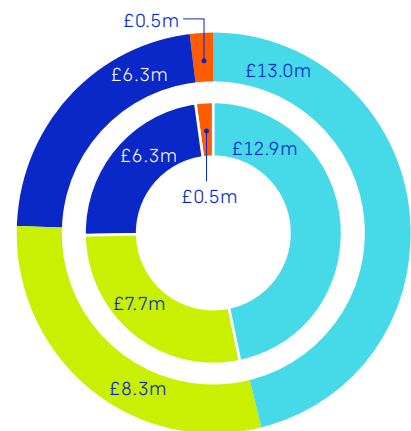
Our work will directly impact our customers in the following areas:

- Improved customer experience through smarter, more efficient operations, this in turn will help us manage costs and pass on savings to customers.
- Upgrades to technology and infrastructure enhancing resilience and reducing disruptions.
- More accessible digital tools and customer support for managing water use.
- Environmental stewardship to ensure long-term water availability and ecosystem protection.

Taxation

The income tax charge for 2024/25 was £0.6 million (2024: £10.8 million credit). The effective current tax rate charge of 4% (2024: credit of 24%) was higher than (2024: lower than) the UK corporation tax rate of 25% (2024: 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. Our total tax contribution is set out below:



- Direct Tax paid 2024/25 £0m, 2023/24 £0m
- Business rates
- Employment taxes
- Environment Agency abstraction charges
- Streetworks permits

2024/25 (outer) £28.1m
2023/24 (inner) £27.4m

Adam Stephens
Chief Financial Officer

10 July 2025

- 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 178): cash generated from operations; capital contributions; purchases of property, plant and equipment; proceeds from sale of property, plant and equipment; purchase of intangible assets; and principal elements of lease payments.
- ³ This Alternative Performance Measure is calculated as borrowings and accrued interest less loans from intermediate parent company and all company cash and short-term deposits. It is reconciled to our regulatory net debt in table 1E of our regulatory Annual Performance Report.

Principal risks and 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 decisions which maximise the level of risk reduction delivered by resource investment in risk control.

Risk governance

Our documented and established risk management governance model, based on the Three Lines of Defence¹, 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. Audit Risk and Assurance Committee ('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 Executive Leadership Team ('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 95 and 96 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 risk	Year of identification
In the long term, the value and utility of assets and infrastructure may be reduced as a consequence of environmental change.	2023
Shifts in societal and political expectations and perceptions, and rising levels of activism disrupt our external governance and internal operations.	2023
'Forever' Chemicals: PFAS and PFOS become the focus of litigation and regulatory change	2024
The organisation is disrupted through failure to manage the use of complex models and advanced technologies, e.g. 'AI'/machine learning	2024

This year we have conducted a comprehensive review of our principal risks to ensure that they align to our key business processes and reflect our strategic priorities and regulatory obligations for AMP8. This has resulted in some aggregation and disaggregation of some of the risks which result in the list set out below. Overall, we have reduced the number of risks from 16 to 12. There are three new risks which have been disaggregated from our previous risks. Of the risks which last year we assessed as critical: [1] Supply Chain risk is now subsumed within risk 11 - Capital Projects Underdelivery, which is the main area in which supply chain risk would manifest itself; [2] Data Compromise risk remains intact, with an ever-increasing emphasis on cyber risk; [3] Adverse Regulatory Change has been

combined with legal obligations to form risk 8 – Fail to meet regulatory and legal obligations, as we believe the two areas are inextricably linked; and [4] Unsatisfactory PR24 has been removed from the list given our largely satisfactory final determination from Ofwat.

We have disaggregated the water quality element of our 'Failure to supply' risk into a new risk 'Failure to supply high quality water'. We have aggregated the customer impact of a number of previous risks into a new risk 'Fail to meet customer expectations'. We have aggregated the previous legal and regulatory risks into a single risk reflecting the interrelationship of the political and regulatory landscape.

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 and uncertainties continued

Our principal risks

These risks have been identified as having the potential adversely to affect our business assets and goals. 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.

Risk	Description	Impact on
01 Health, Safety and wellbeing	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 and, also resulting in consequent disruption to operations reputational damage, criminal fines, civil damages or regulatory penalties.	- Satisfied customers - Satisfied workforce - Reputable company - Compliant organisation - Financial stability
	Post Control Rating	Trends
	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 and safety training. - Regular health and safety 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 health and safety accreditation, and adhere to our H&S common standards, with regular audits and performance reviews undertaken. - Our governance framework ensures health and safety performance is tracked and monitored at operational management, Executive Leadership Team and Board levels. - Our health and safety 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. - Particular focus areas in the year included reducing the risk of strikes on other utilities' services; and improving controls around our chemical storage usage and handling; action plans have been developed and are being tracked through to completion. - We have made significant progress in understanding our risks around Process Safety and have developed a strategy to identify the risks at our key sites so we can ensure appropriate control measures are implemented. - Deep dive reviews covered street works, occupational road risk, worker fatigue, service avoidance, chemical management, lone working, mental health, fire and CDM, and resulting recommendations actioned.		

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 increased during the year (taking account of control activities)



New risk (Risks newly aggregated / disaggregated)

Risk	Description	Impact on
02 Failure to supply	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 - Financial stability
	Post Control Rating	Trends
	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 repair 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 have commenced our extensive smart metering programme that will provide our operational teams and customers with regular insight into how they use water and how they can reduce consumption - We have invested in new assets to ensure we have both a resilient supply of water and the ability to move water more readily across the communities we supply - Construction of new storage assets so that we can hold more water in reserve when we need it most - Our final water resources management plan has now been published, see affinitywater.co.uk for more details.		

Risk	Description	Impact on
03 Failure to supply high quality water	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	Trends
	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 ('DWSP') are in place for all our supply systems, from abstraction points all the way through to the customers' taps. - For the calendar year 2024, our water quality performance, as measured by the Compliance Risk Index ('CRI'), puts us in the upper half of industry performance, continuing our strong underlying performance for this metric. - Our performance for the Event Risk Index ('ERI') was 0.08 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		

Principal risks and uncertainties

continued

Risk	Description	Impact on
04 Data compromise	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	Trends
	Critical	
	Control Measures	Update
05 Environmental damage	- 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 cyber security 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 cyber security readiness.	- We have employed new technologies to enhance our existing posture, supported by mature processes aligned to industry best practice standards such as ISO27001 - Further investments are planned as part of the AMP8 Cyber Enhancement Programme including: - development of an in-house Cyber Defence Centre; - bringing together multiple different defence capabilities; and - orchestrating our ability to respond to the ever evolving cyber threat landscape. - We continue to comply with the requirements of the NCSC Cyber Assessment Framework and achieved full compliance with the Sector Specific Profile, which was independently validated by a specialist third party partner.
	Post Control Rating	Trends
	Low	
	Control Measures	Update
06 Adverse climate impact	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	Trends
	High	
	Control Measures	Update
07 Fail to meet customer expectations	We may fail to meet our customers' evolving expectations to deliver consistent, high-quality experiences across all our customer interactions, that could lead to a loss of trust, reputational damage and regulatory responses to reduced C-MeX performance scores.	- Financial stability - Compliant organisation
	Post Control Rating	Trends
	Moderate	
	Control Measures	Update

Risk	Description	Impact on
06 Adverse climate impact	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	Trends
	High	
	Control Measures	Update
07 Fail to meet customer expectations	- 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 Water Resources Management Plan 2024 which sets out measures to mitigate the reduced availability of ground and surface water.
	Post Control Rating	Trends
	Moderate	
	Control Measures	Update

Principal risks and uncertainties

continued

Risk	Description	Impact on
08– Fail to meet regulatory and legal obligations	We may fail to comply with obligations under our instrument of appointment, or regulations and laws relevant to our business activities, resulting in a prosecution, fines, or special administration.	- Financially stable - Compliant organisation - Reputable company
	Post Control Rating	Trends
	High	New
	Control Measures	Update
	- We continue to contribute fully to consultations with our regulators and seek to ensure our voice is heard on emerging changes through strong relationships with all our staff. - We continue to engage with all of our stakeholders (including regulators and policy makers) and their representatives to understand and respond to their issues and concerns - We have a dedicated in-house Regulatory and Legal team with broad and detailed industry knowledge, which follow and review of all new industry-relevant legislation and regulation both internally and through trade bodies e.g. Water UK, as well as an active horizon scanning programme	- We recognise a heightened risk of complying with ongoing and rapid change given the significant scrutiny on the sector that has led to a number of interventions including the Special Measures Bill, and Cunliffe Review. - The final Cunliffe report will be published in July with a government response in September leading to legislation in 2026. We have formed a working group of colleagues from regulation, public affairs, legal and finance to track the implications for Affinity from this process and to instigate necessary changes.

Risk	Description	Impact on
09– Funding challenges	We could fail to maintain or have access to sufficient financial resources to continue for our business activities	- Financial stability - Compliant organisation
	Post Control Rating	Trends
	Moderate	
	Control Measures	Update
	- We have 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.	- Access to markets has improved following the FD, and in March 2025 we issued a £350 million, 15.5-year bond. - Our next major maturity is scheduled for July 2026, which has been prefunded by our recent debt issuance. - 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.

Risk	Description	Impact on
10– Adverse Macro-economics	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	Trends
	High	
	Control Measures	Update
	- We have implemented efficiency programmes to reduce the amount of energy we use and developed self-generating assets (solar) to reduce our reliance on grid-imported energy. - Interest-rate risk is primarily managed by using a mixture of fixed-rate and inflation-linked borrowings, and approved hedging instruments (refer to note A4 to the financial statements for further information). - We have a financial covenant within our WBS documentation stipulating that at least 85% of our outstanding debt is hedged against movements in interest rates. Interest rate risk is monitored and reported regularly to the Board. - 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.	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	Description	Impact on
11– Capital projects underdelivery	We may fail to deliver our planned capital investment programme, resulting in deteriorating asset health and performance, as well as the loss of cost allowances via regulatory true up mechanisms and price control deliverables.	- Financial stability - Reputable company
	Post Control Rating	Trends
	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 onerous 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 and uncertainties continued

Risk	Description	Impact on
12- Asset deterioration	The health of our assets may deteriorate in future years ahead of our current expectations such that water supply or quality is compromised, in addition to employee safety.	• Satisfactory supply • Satisfactory quality • Satisfied customers • Reputable company • Satisfied workforce
	Post Control Rating	Trends
	Moderate	
	Control Measures	Update
	• The maintenance of our existing assets to maintain service to customers is funded from the base capital maintenance element of our regulatory settlement. • We have autonomy to decide how to allocate funds to best deliver our performance commitments. We use a 'risk and value' based approach to inform our decision making, enabling us to prioritise investment to those areas that most need it to maintain service and protect our employees. • We are actively participating in Ofwat's innovation funding initiatives, aiming to leverage these funds for various projects, including those focused on network optimisation.	• We have added new tools to the asset identification process, to ensure we are selecting the optimal asset. These tools include ACMFs (Asset Class Management Frameworks) – strategic guidance documents, for each of the key asset cohorts, that set out performance and health criteria to develop investment candidates. • We have developed AMP8 class plans to develop highly targeted asset intervention plans. • We are working on enhancing the accuracy and completeness of our data and the suite of asset health metrics we use to measure risk, to continuously improve our ability to target investment to reduce the greatest amount of risk.

Viability statement

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

Period of assessment

The directors have assessed the company's prospects and financial viability both in the short term and long term. The directors have considered the company's long-term prospects in the context of our PR24 plans, where we have accepted Ofwat's Final Determination for revenues and the outcomes we need to deliver in AMP8. The directors also assessed our 2024 WRMP (page 32), which sets out our plan to secure the long-term provision of resilient and sustainable water supplies for customers from 2025 to 2075. Our final Water Resources Plan ('WRMP24') has now been published. See page 32 for more details on our PR24 plans and our 2024 WRMP. The financial projections presented to the Board, to enable assessment of the company's long-term prospects, reflect the expected level of investment implied by this plan and recovery of this investment from customers.

The directors have also assessed the company's financial viability over a shorter ten-year period to 31 March 2035 (the 'lookout period'). The forecasts used in the assessment of financial viability, therefore, project beyond the current price control period, taking into account our PR24 plans and additional projected financials for the final years of the lookout period. The level of reliability of the assumptions used reduces in the second half of the lookout period. However, the directors continue to consider the ten-year period to be appropriate given the long-term nature of the business.

Assumptions made in the base-case scenario

To assess long-term viability, stress-testing was performed on a Board-approved base case cash flow forecast (the 'base case cash flow forecast').



The base case reflects projected costs and revenues based on the directors' current view of future performance of the company as allowed by Ofwat's PR24 Final Determination of price controls, 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 forecast for AMP8 is based on the PR24 Final Determination received from Ofwat in December 2024 and accepted by the Board. AMP8 expenditure also includes anticipated expenditure to further develop strategic regional water resource solutions, as detailed in our new 2024 WRMP.

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, as determined in the PR24 Final Determination.

Within the lookout period there is a total financing requirement of £1.2 billion to re-finance £588 million of existing bonds and forecasted swap accretion as well as raising

£631 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. Notes accepted for repurchase were cancelled, reducing the company's outstanding debt obligations (refer to page 153 for details of our bond maturities). For new debt to fund additional investment, the base case has assumed rates of 6.4% for Class A fixed to match with the 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.



Viability statement continued

Tests were applied to the base-case cash flow forecast to assess for resilience against financial shocks, compliance with financial covenants and availability of cash reserves. Financial ratio targets (including targets for cash interest cover, adjusted interest cover, funds from operations to debt, return on capital employed and return on regulatory equity) to evaluate the results of the stress testing were set to align with the levels required to meet our Baa1 credit rating under Moody's current methodology and to maintain an investment grade credit rating. A key assumption of this viability statement is that the company maintains an investment grade credit rating, in line with its Instrument of Appointment. The targets maintain headroom against the trigger and default levels set out in the company's WBS documentation. Trigger levels, if reached, would require increased reporting to the WBS lenders and would lock up dividend payments. If default levels were reached, the company would be in breach of its WBS arrangements and subject to the provisions of the Security Trust and Intercreditor Deed ('STID'), in particular the standstill period mechanisms. Each lender may declare all amounts outstanding to be 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.

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

S1	15% increase in totex
S2	2% decrease in all three inflation metrics (RPI, CPI and CPIH)
S3	One-off exceptional event
S4	A penalty, fine or one-off cost of £10 million
S5	3% increase in cost of debt
S6	ODI/PCD penalty of £5 million per annum scenario
S7	Combination of S1 (15% increase in totex) and S2 (2% decrease in inflation metrics)
S8	Combination of S3 (one-off exceptional event) and S6 (ODI/PCD penalty scenario)
S9	Combination of S3 (one-off exceptional event), S4 (penalty/fine of £10m), and S6 (ODI/PCD penalty scenario)

Total expenditure (totex) sensitivity (S1): The directors consider the 15% totex increase to be sufficient to capture the financial impact of exceptional items. This includes regulatory fines and legal costs (referencing principal risks 1, 4, and 8), expenses related to weather events (principal risk 6), costs from a water quality incident (principal risk 3), and any unfunded costs not accounted for in Ofwat's price control framework.

Inflation sensitivity (S2, S7): The 2% reduction in inflation metrics represents a severe scenario, considering the company's exposure to inflation-linked debt and costs. These factors act as natural hedges against lower revenue.

One-off exceptional event (S3): This scenario assumes an initial capital expenditure (capex) requirement of £80 million and an operational expenditure (opex) need of £30 million in year 1, followed by legacy opex impacts of £15 million in year 2 and £10 million in year 3.

Penalty or fine (S4): This scenario considers a £10 million one-off cost, which could arise from a regulatory penalty, legal settlement, environmental fine, or other exceptional expenses.

Increase in cost of debt (S5): A scenario where the cost of debt rises by 3% has been considered, which could reduce funds available for investment, impact profitability, and place additional pressure on cash flows.

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

ODI/PCD penalty scenario (S6): The directors consider this sensitivity sufficient to assess the financial impact of severe ODI/PCD penalties of £5 million per annum resulting from underperformance (referencing principal risk 5).

Combination scenarios:

S7 (totex and inflation Stress): This scenario combines a 15% increase in totex with a 2% decline in inflation, representing a period of economic downturn where costs rise significantly, but inflation-driven revenue adjustments fail to keep pace. Key risks include margin compression, reduced affordability for customers (impacting collections), and increased funding requirements for capital programmes.



S8 (Exceptional event and ODI/PCD penalty): This scenario assesses the financial impact of a major operational incident requiring immediate investment, compounded by underperformance in key service areas, triggering penalties. A water quality failure, severe weather event, or cyber-attack could be examples of exceptional events, while ODI/PCD penalties could arise from service interruptions, leakage performance, or environmental impact measures.

S9 (Exceptional Event, Penalty, and ODI/PCD Penalty): This is an extreme stress test scenario where the company faces multiple simultaneous financial pressures. A major incident (e.g., flooding or asset failure) necessitates high unplanned expenditure, while regulatory scrutiny results in a £10 million fine and additional ODI/PCD penalties. This scenario examines the company's

ability to manage liquidity, access capital, and maintain compliance with financial covenants under severe conditions.

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

- Issue a further short-term RPI or CPI-linked swap to reduce the interest charge. This would yield a higher impact to the interest charge than a longer-term swap;
- Reduce further operating costs by targeting efficiencies particularly in areas where higher totex (S1) or unplanned exceptional events (S3) have pushed costs beyond budget;
- Implement additional working capital management to preserve cash flow and liquidity, especially in the event of rising debt costs (S5) or severe ODI/PCD penalties (S6);

- Buy back a portion of the 5.875% class A fixed rate bond, the company's most expensive debt, reducing the overall interest charge. This would mitigate the effects of a 3% increase in the cost of debt (S5) and improve the company's debt structure; and
- Restrict dividend payments in AMP8 to retain additional capital for investment.
- Prioritise the investment programmes and reduce operating costs to reduce cash outflows in critical years.

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

- The company's available liquidity and access to short term funding;
- The company's ability to renew its existing short-term borrowing facilities under most market conditions;
- The likely effectiveness of current and planned mitigating actions, as detailed in the principal risk section;
- The company is financially and operationally 'ringfenced' from the rest of the Affinity Water Group by way of the WBS (refer to page 151 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.

To conclude, 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, mitigation actions are required to ensure compliance with these covenants. 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.

Scenario	Rating agency measures		Key covenants		Mitigation	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	Not required	Met	Met	Met	Met
01	Not met	Not met	Met	Met	Required	Met	Met	Met	Met
02	Not met	Not met	Met	Met	Required	Met	Met	Met	Met
03	Met	Met	Met	Met	Not required	Met	Met	Met	Met
04	Met	Met	Met	Met	Not required	Met	Met	Met	Met
05	Not met	Met	Met	Met	Required	Met	Met	Met	Met
06	Met	Met	Met	Met	Not required	Met	Met	Met	Met
07	Not met	Not met	Met	Met	Required	Met	Met	Met	Met
08	Not met	Not met	Met	Met	Required	Met	Met	Met	Met
09	Not met	Not met	Met	Met	Required	Met	Met	Met	Met

The company remains fully compliant with all WBS Covenant requirements across all modelled scenarios, including those most severe scenarios. However, two of the rating agency measures are not met in scenarios 01, 02, 07, 08 and 09 and partially met in scenario 05 for the adjusted interest cover measure.

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 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 ten year assessment period.

The PR24 business plan reflects a significantly improved position compared to AMP7, supported by a favourable PR24 outcome, increased regulatory allowances, and £150 million of new equity from shareholders.



Aim:

Leave the environment in a sustainable and measurably improved state.

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

Objectives:

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

Water is precious and essential for life, but it is also a finite resource that comes from local environment. Our operating area is home to around 10% of England's chalk streams. These are globally rare and important habitats which support a variety of plants and animals. Our supply area includes four Areas of Outstanding Natural Beauty, a range of designated site including Sites of Special Scientific Interest, and local nature reserves and Dungeness, the largest and most-diverse stable vegetated flint shingle beach in Europe.

We measure how our plans and activities impact on the environment through the use of natural capital to build greater understanding of environmental value. We also mapped our activities against UN Sustainable Development Goals to understand our impact and our business contribution. We want to

ensure that our long-term strategies prepare us for the effects of climate change, both on our assets and the environment in which we operate and provide wider business resilience.

Our plans and strategies include:

- Reducing our operational and embedded carbon emissions in line with our Net Zero carbon commitments. We work with customers, industry, regulators and our supply chain to adapt our plans and incorporate innovation and new technologies as appropriate, in support of this ambitious goal.
- Creating resilient catchments that can support a diverse range of habitats, while protecting water resources and water quality. Our supply duty will be met through a sustainable abstraction regime that optimises where and when we take water from our environment.

- Becoming a centre of excellence for collaboration with our partners by facilitating and driving active engagement with customers, landowners, tenants, river groups, our environmental regulators and other organisations to fulfil our ambition. We can't solve these challenges alone and only by working in partnership will we deliver our environmental commitments. We want to build common understanding and share our environmental data with our customers, communities and stakeholders to ensure transparency and enable an improved understanding of these complex systems. Our environmental data will underpin everything we do, and our decisions, plans and policies will be based on evidence-based science and best practice.

Our alignment to the UN SDGs

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

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



Promoting a culture of diversity and inclusivity throughout the workplace

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



Supplying quality water, working alongside sewerage companies regarding sanitation

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



Ensuring employees are engaged, making Affinity Water a great place to work

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



Securing sustainable quality water and investing in our assets to supply to domestic and commercial customers

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



Supporting vulnerable customers that need help paying their bill or accessing their water

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



Securing the long-term provision of sustainable water for all

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



Supplying quality water for all and protecting the environment

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



Ensuring sustainable water sourcing and protecting the environment

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



Increasing biodiversity and sustaining the environment

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



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

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

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

Overview

We are committed to the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') and the requirements of the UK Companies [Strategic Report] (Climate-related Financial Disclosure) Regulations 2022. This means providing our stakeholders with transparent information on climate-related risks and opportunities relevant to our business. Sustainability and climate resilience are central to our strategy and we summarise below our current approach to implementing the TCFD recommendations, following the four thematic

areas of governance, strategy, risk management, and metrics and targets. The four thematic areas cover the 11 recommended disclosures and explain how we comply with the TCFD reporting requirements.

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

Governance

Definition

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

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

Progress this year

The newly formed ESG Committee is now fully operational, having completed its transition from the Safety, Health, Environment, and Drinking Water Quality ('SHEDWQ') Committee in June 2024. The Terms of Reference ('TOR') have been updated to accurately reflect this transition and ensure the Committee's alignment with its new focus and responsibilities.

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

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

Future focus

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

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

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

Where else to look



See our governance report on [pages 90 to 161](#) including the work of the ARAC Committee, Remuneration Committee and Nomination Committee



See principal risks and uncertainties section on [pages 49 to 56](#)



See section 172(1) statement on [pages 30 to 39](#)

The Board

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

The Board has effective oversight of climate-related risks and opportunities. A principal risk relating to the physical risks from climate change is included within our strategic risk register, which is regularly reviewed by the Executive Team and annually by the Board. We've also recognised that climate change and the transition to Net Zero affects several of our principal risks. The strategic risk register includes details of appropriate controls and mitigating actions. Any relevant targets related to climate change are approved by the Board, including our target to reduce carbon emissions. In 2024, the Board oversaw and received regular updates on the development of the draft WRMP24 and PR24 business plan, which embed climate adaptation and mitigation into future actions.

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

Board Committees

ESG Committee

In January 2024, the SHEDWQ Committee transitioned into the ESG Committee, and its Terms of Reference were updated and approved by the Board. The Committee's purpose is to ensure strategic focus and direction is given to ESG across the business and monitor and minimise ESG risks and maximise opportunities to add social and environmental value. This includes consideration of Net Zero, climate

TCFD continued

change adaptation and resilience, natural capital, biodiversity, and changes to the environmental regulatory landscape. The Committee is responsible for ensuring that the ESG strategy and activities align with the company's objectives and decision-making processes, on behalf of the Board. The Committee focuses on relevant ESG matters and supports the company in achieving ESG goals, performance plans, and programmes.

Audit, Risk and Assurance Committee

The Committee oversees the Group's financial reporting, assurance, and risk management programme. The Committee is increasingly cognisant of the potential financial impacts of climate change, and we will continue to raise awareness of climate risks to be considered by the Committee. Among the Committee members, one possesses primary capability and experience in ESG matters, while two others have relevant background experience in the field.

Remuneration Committee

The Committee establishes the Remuneration Policy and incentive/reward scheme for Executives to meet strategic objectives. The Committee considers objectives relating to climate change and the environment in the incentive scheme.

Nomination Committee

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

Management

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

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

In 2022 and 2023, we experienced both a heatwave in summer and the winter freeze/thaw events that were disruptive to our operations. In 2024, we faced further challenges when Storm Bert impacted our sites, resulting in significant groundwater flooding. Following each incident we conduct a thorough post-incident review, including a review of antecedent conditions. We have established a Programme Board, with ELT sponsorship to ensure post-incident learnings are progressed and our plans adapt and evolve accordingly. We update our overarching plans that set out our approach to preparing for, responding to, and recovering from disruptive events when they arise. Additionally, we have an embedded Seasonal Readiness Plan that is reviewed twice a year to ensure that new triggers are captured and acted upon. Our Business Continuity Committee, also with ELT Sponsorship meet quarterly, to ensure the Business Continuity Plans, which also link through to our corporate risk register, are updated following incidents and exercises to remain relevant and new risks are captured. Our TCFD working group championed by our Climate Change and Carbon Manager meets on at least a monthly basis and consists of Senior Asset Manager, Risk Manager, Financial Controller and Sustainability Manager. It reports to the ESG Sub-Committee and is primarily focused on enhancing our progress with implementing the TCFD recommendations and preparing our TCFD disclosure. This year we engaged external consultants AtkinsRéalis to support us in enhancing our TCFD compliance and expanding our disclosures. Senior management participated in a TCFD workshops to review progress and agree the next steps to strengthen our performance over the coming years. The workshop's main outcomes were:

- Raised awareness and understanding of the TCFD recommendations and disclosures in the UK amongst senior Affinity Water leaders.
- Understanding the current level of compliance with the TCFD recommendations and further areas for enhancement.
- Obtaining inputs to feed into the 2024/25 TCFD disclosure.
- Discussing on climate transition risk scenario analysis and impacts to the business.

Risk management

Definition

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

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

Progress this year

Through our Climate Change Adaptation Report 2024, we updated our physical risk assessment and identified six headline physical risks that can potentially affect our operations and business.

We identified six headline transition risks that require management, as they could potentially result in substantial impacts during our transition to a climate-resilient, Net Zero company.

Future focus

We will better define/assess the impacts of climate change and the transition to Net Zero on each principal risk.

We plan to update our enterprise risk management systems as part of the £32 million fund Ofwat have directed us to use in PR24, to improve and increase the resilience of our infrastructure in the 2025-2030 period.

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

Where else to look



See principal risks and uncertainties section including our approach to risk on [pages 49 to 56](#)



See the viability statement on [pages 57 to 61](#)

Future focus

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

We 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 risks.

We will continue strengthening incentives/rewards for ELT and all employees to drive the achievement of our climate and ESG objectives.

Risk management

Our risk management framework

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

Audit, Risk & Assurance Committee ('ARAC')

Regular review of audit, assurance, risk and compliance matters

Executive Leadership Team ('ELT')

Quarterly review of strategic risks and significant directorate risks

Corporate Risk Management Team

Second line support advice, training, reporting

Directorate Leadership Teams

First line risk identification, assessment, evaluation, management of directorate risks

TCFD continued

change and ESG. We maintain a formal risk register and risk management system for identifying, evaluating, and mitigating risks.

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

Identifying, assessing, and managing physical risks

In 2024 we updated our physical risk scoring methodology in line with DEFRA's Adaptation Reporting ('ARP4') guidance. We identified priority physical and transition risks from climate change and how these 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 five times: (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 2025-2030 PR24 business plan, our 2025-2050 LTDS and our 2025-2075 WRMP24. The physical risks related to climate change is a principal risk within our strategic risk register and is considered as part of the stress testing within the viability statement. Our directors consider that this risk in isolation would not compromise the company's financial viability during the lookout period of ten years. Instead, the risk could be considered as part of several different severe, plausible, and reasonable sensitivities to the company's base case forecast, detailed in the viability statement.

As part of 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 Resource South East ('WRSE'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.

Identifying, assessing, and managing transition risks

This year we identified material risks related to the transition to a Net Zero climate resilient economy, and we've recognised that many of our principal risks are impacted by transition risks. In our 2024 Climate Change Adaptation Report we identified measures of managing and adapting to both the updated physical and transition risks. In addition, we completed preliminary scoring of transition risk by assessing risks three times for: (i) present-day conditions; (ii) risk in 2030s; and (iii) risk in 2030 with mitigating actions. The evaluation of transition risks enabled us to 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 ARP4 report, we held a workshop to appraise how the rate of transition to total Net Zero may exacerbate these transition risks for Affinity and potentially jeopardise our target of reaching total Net Zero by 2050. This is described further in the 'Strategy' section of the TCFD.

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

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

Future focus

Recognising climate change as an underlying cause and impact on several of our principal risks, we are committed to further defining and understanding these impacts over the next year. This ongoing effort will enable us to better address and manage these risks in our future planning and operations. We have documented in our risk registers, where appropriate, controls in place to mitigate as far as possible the potential physical effects of climate change in elevating those risks. We will continue to monitor climate change and its impacts on our operations, as well as the effectiveness and efficiency of our mitigating controls, with the objective of ensuring our ongoing sustainability and resilience. In undertaking this assessment, we also sought to review our mitigation options with key WRMP24 and PR24 investment needs to plan for enhanced resilience.

We will broaden our viability stress testing by including transition risks as part of the principal risks and highlight potential impacts to the business. We are considering potential changes to our risk scoring guidance and risk management approaches to ensure climate risks are captured and effectively managed. We plan to update our enterprise risk management system to enhance the integration of physical and transition climate risks by restoring them into the new system using the new scoring guidance and management approaches.

Strategy

Definition

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

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

Progress this year

Major progress has been made in embedding climate resilience into our future operations, with publication of our Climate Adaptation Report and final WRMP24 in 2024. In our Adaptation Report we set out formal risk scoring of our physical risks in two climate scenarios (medium emissions RCP4.5 and high emissions RCP8.5), describing how the impact of physical risks might change in either scenario. In addition, we made a preliminary assessment of transitional risk scoring.

We completed a qualitative climate scenario analysis for transitional risks and opportunities and discussed our strategic responses in the event of an orderly or disorderly transition to Net Zero.

We have finalised and published on our website our customer friendly (non-technical) version of our Climate Change Adaptation Report 2024.

Future focus

We are reviewing our Net Zero Strategy to update on our progress for operational emissions by 2030 , and total Net Zero by 2045.

We are developing a strategy for improving our greenhouse gas emissions reporting through ISO14064-1 verification and by working with our supply chain to improve our Scope 3 emissions reporting.

We have received an £8.6 million Climate Change uplift allowance from Ofwat for AMP8, which will be allocated towards enhancing and prioritising flood and energy resilience in response to the challenges presented by climate change and minimising risks of interruptions for customers.

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

We plan to update our preliminary scoring of transitional risk by re-scoring each risk with consideration of our strategic responses discussed during the climate scenario analysis completed this year and our new enterprise risk management framework reporting) on page 67.

Where else to look



See principal risks and uncertainties section including our approach to risk on pages 49 to 56



See the viability statement on pages 57 to 61

Strategy

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

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

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

Time horizon	Time period	Justification
Short term	2024-2030	Aligns with AMP8 planned actions
Medium term	2030-2050	Aligns with actions identified in the LTDS and WRMP
Long term	2050+	Aligns to forward-looking nature of WRMP24 and post-UK Net Zero 2050

Physical climate risk assessment

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

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, including the implications of up-to-date flood risk modelling on our asset base. The report details where we want Affinity Water to be in 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 headline physical and transitional risks identified are shown below and were developed in the 2024 Climate Change Adaptation Report. The transitional risk scoring is further discussed in the next section.

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

TCFD

continued

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'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

¹ Future risk scores are given for +4°C for 2075 for physical climate risks (R1-6), and for 2030 for transition risks (T1-6).

Risk scoring matrix

Impact

1. Insignificant

2. Minor

3. Moderate

4. Major

5. Critical

Likelihood

5. Almost certain

4. Probable

3. Possible

2. Unlikely

1. Remote

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

Transition risk and opportunity assessment

We published our Net Zero strategy, and in 2024 we identified material transition risks with support from consultants AtkinsRéalis. Material risks were identified by considering challenges relating to the UK's transition to Net Zero and associated challenges across the UK water sector. The impact of our transitional risks and our mitigating actions was summarised in our 2024 Climate Change Adaptation Report. The report summarised the preliminary assessment of risk impact and likelihood by 2030, provided the mitigating actions described were able to be completed. We recognise that some of our transition risks are high and are currently higher in comparison to physical risks. We plan to address this after appraisal of Ofwat's Final Determination and how it might impact our ambitions to mitigate transition risk. We also plan to update our Net Zero plan, which will outline further actions to reduce transition risks. In addition to the transition risk assessment, we identified key transition opportunities.

Our headline 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, 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

Approach

This 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 the year 2050; this time horizon was selected as it aligns with the UK's Net Zero target and is five years beyond our total Net Zero by 2045 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.

The transition scenarios selected were two of a possible framework of transition scenarios developed by the Network for Greening the Financial System ['NGFS'] which have become widely adopted in the UK. The two NGFS scenarios we used are [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 2045 target.

Our scenarios can be defined as:

Orderly transition - Net Zero 2050	Disorderly transition - Delayed transition
A scenario which see 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. 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	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 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.

Key assumptions:

- Scenarios focus on the UK policy and regulatory context and are semi-independent of global action and temperature pathways.
- It is assumed 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 2045 target. The following are the main impacts for our business:

- The cost of energy and materials required to meet our total Net Zero by 2045 target is higher than in the disorderly transition:** There are delays in government bringing about necessary changes in policies and markets toward Net Zero, and this slows the decarbonisation of the grid and the transition to

TCFD continued

lower carbon technologies for vehicles, construction materials, and processing chemicals and equipment. Demand for green electricity post 2030 across the UK is greater than supply, driving up the cost of green energy. Overall, there is lower readiness and higher costs for access to low-carbon technologies and related skills [due to the UK's underinvestment in this scenario]. Our ability to remove carbon intensive energy sources and modes of transportation is delayed, increasing our expenditure on carbon offsetting post 2030 to meet our operational Net Zero target.

- **Weaker regulatory enabling environment and lower prioritisation of transition to Net Zero until post 2030:** The enabling environment for decarbonisation is weaker with less incentives and support to achieve Net Zero until beyond 2030. This leads to slower progress in GHG emission reductions across our business and higher costs to decarbonise. There are reduced potential rewards for GHG reduction and nature-based solutions, and we would have to divert investment from other areas to fund our transition. Delays in policy change until 2030 followed by abrupt changes increase the risk of policy misalignment across sectors and investment decision regret, including in R&D.
- **Meeting environmental regulation increases our GHG emissions:** High environmental ambition from government and regulators, such as reducing abstraction in sensitive locations, leads to an increase in our carbon footprint due to increased energy and material use to meet enhanced regulation, for example requiring us to source water that requires a greater degree of treatment. Our associated carbon footprint risks increasing into the 2030s when low carbon energy and technology (including low carbon concrete and steel) becomes more available.
- **Reputational risks are significant – particularly across younger demographics - and require careful management:** There is a high level of public scrutiny post 2030 – particularly across younger demographics - to ensure we achieve our target of total Net Zero by 2045. We must balance concerns regarding affordability with making appropriate investments to meet our targets and manage how we are perceived by customers and stakeholders.
- **Delayed transition results in higher physical climate risks, increasing costs for climate resilience:** The delayed transition to Net Zero increases physical climate risks, requiring additional investment to manage droughts and build resilience to extreme climate events, including increased costs for maintenance and recovery.
- **Opportunities are lower than in the orderly transition:** Even in the event of a disorderly transition there are transitional opportunities available. However, they are more limited, with a lower return than in an orderly transition scenario and sustainable financing options are less widespread. Increasing energy and operational efficiency by pursuing low-carbon energy and technology alternatives through innovation and

sustainable water use can help to offset additional energy and carbon costs in this scenario.

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.

- **The cost of energy and materials required to meet our total Net Zero by 2045 target is lower than in the disorderly transition:** There is strong government action and regulatory support for Net Zero, resulting in more renewable energy generation and grid decarbonisation, and overall transition readiness is higher. This lowers the cost of low-carbon technologies and increases the supply of related skills due to investment from government and businesses. There is greater supply and demand for green electricity across the UK, keeping electricity prices relatively high. This reduces the carbon intensity of our energy sources, transport, construction materials, and processing operations, reducing our expenditure on carbon offsetting post 2030.
- **Stronger regulatory enabling environment and prioritisation of transition to Net Zero:** The enabling environment for decarbonisation is stronger sooner, resulting in faster progress in GHG emissions reductions across our business and lower costs to decarbonise. There are increased potential rewards and funding for GHG reduction. Policy certainty and changes implemented as planned reduce the risk of investment decision regret, including in R&D.
- **Meeting environmental regulation increases our GHG emissions, but these decrease with an orderly transition:** Similar to the disorderly transition, high environmental ambition from government and regulators leads to an increase in our carbon footprint due to increased energy and material use to meet enhanced regulation. However, we benefit from timely grid decarbonisation and increased availability of low carbon construction materials reducing our overall GHG emissions compared to a disorderly transition.
- **Reputational risks are significant and require careful management:** There is a high level of public scrutiny across all demographics to ensure we achieve our target of total Net Zero by 2045, and there is greater support from customers or investment whilst balancing affordability.
- **Orderly transition may result in lower physical climate risks, decreasing costs for climate resilience:** Physical climate risks reduce under an orderly transition, assuming the rest of the world follows the same trajectory. This would reduce costs related to climate impacts beyond 2050. Up to 2050 we will continue to experience extreme weather events of similar or greater magnitude than record breaking events experienced in the present decade because of the climate change which is already locked in.

- **Opportunities are higher than in the disorderly transition:** The more favourable enabling environment means that our opportunities are enhanced in this scenario, and they are easier to realise. There are opportunities to further invest and innovate on energy and resource efficiency, and to attract further investment, such as through sustainable financing and Ofwat innovation funding.

Our strategic response

Our latest business plan and Final Determination from Ofwat commits our investment to 2030 and is based on the current policies and regulatory framework. Even if favourable policy changes related to Net Zero occur before 2030, we will be limited in our ability to take advantage of these 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 2045 target. Our key strategic responses to impacts of a disorderly transition are as follows:

- **Investing in efficiency and renewable energy generation:** By investing in energy and water efficiency (including leakage reduction), system optimisation, and renewable energy generation through our ongoing solar programme, we reduce our GHG emissions and our reliance on decarbonisation of the UK grid. This will reduce our expenditure on offsetting and reduce our exposure to future policy changes which penalise GHG emissions [e.g. carbon pricing]. We already took the decision in 2023 to stop purchasing higher-cost green electricity so that we could instead invest in areas which better align with our customers' priorities, such as water efficiency. We will continue to make the case for investment in GHG reduction on our sites by thinking long-term.
- **Balance environmental commitments and Net Zero commitments:** We plan to increase our environmental monitoring and assessments to better understand the broader impacts and benefits of options for reducing abstractions in sensitive locations. We need to assess the scalability and performance of nature-based solutions, and the preferred alternatives to abstraction, noting that some proposed schemes (such as the 100Ml/d Grand Union Canal transfer) would increase our GHG emissions as they require a higher degree of water treatment and increased distribution infrastructure. We would aim to take balanced decisions to pursue our environmental destination in a way that minimises increases to our carbon footprint. We have developed our policy paper '10 steps to water security' to support engagement with government, regulators, and stakeholders, and we will continue highlighting that environmental policy ambition has whole system impacts which may result in increasing the carbon footprint of the water sector.
- **Update our customers on our Net Zero plans as conditions change within our company and in the broader economy:** We are awaiting the result of Water UK's review into the Public Interest Commitment to Net Zero by 2030 which will inform our plans and how we continue to engage with our customers. We plan to continue building

customer trust through engagement and transparency, for example by providing updates on our progress with Net Zero, and publishing both our Adaptation Report and our Annual Report as non-technical documents for our wide customer audience. Where we can, we will be responsive to changes in policy, regulation, markets, and technology, which may warrant updates to our Net Zero plans to ensure we balance our ambition with our customers' priorities.

- **Adapting procurement strategies to reduce our GHG emissions:** Regardless of transition scenario, our increased cost of materials is linked to international markets which face increased costs due to decarbonisation, and prices are largely outside of the control of the UK government. To combat this, we are diversifying suppliers to increase supply resilience and manage our costs of imported materials, chemicals, and equipment. In addition, we are developing a procurement code of ethics which will help us monitor if key suppliers are reporting their Scope 1-3 emissions and targeting Net Zero by 2050. We are also exploring power purchasing agreements for renewable energy to reduce our electricity costs alongside our GHG emissions.
- **Pursue opportunities to develop more value for customers and shareholders:** We will continue to reduce our financial costs through our sustainable financing framework and explore funding and incentive schemes available to help fund our transition, such as Ofwat's innovation funding. If there is immediate action on rapid grid decarbonisation, and a push to grow Net Zero skills and increase EV uptake, then an orderly transition to Net Zero is still possible. In this event our strategic response to transitioning to total Net Zero would remain largely similar to our response to a disorderly transition, with less overall expenditure and risk to our business as we meet our target of achieving net zero by 2045.

Statement of resilience

Key impacts on our business under the climate scenarios explored can be summarised as:

- Higher costs in the short and medium term to achieve our ambition of total Net Zero by 2045 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.

Significant action and investment will be required, as well as action by others 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. We plan to update our Net Zero plan this year where we will complete further analysis, including

TCFD continued

quantitative analysis, to outline the pathway to achieving total Net Zero by 2045 and further enhance the strategic responses we describe above.

Future focus

We are reviewing requirements for aligning reporting to the Carbon Disclosure Project ('CDP') within AMP8. CDP is the world's most widely used database of organisational environmental impact information. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. The aim of the CDP is to improve environmental impact data transparency

and support sustainable business by helping companies measure, track and reduce damage to the environment. We are reviewing our Net Zero Strategy to update the projections for Net Zero by 2030, following Ofwat's Final Determination. Within this, over the next months, we will conduct a review of the green electricity tariff. This review will consider the REGO energy costs in comparison to the standard tariff, ensuring the most cost-effective and beneficial solution for our customers.

Metrics and targets

Definition

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

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

Progress this year

We completed a pilot programme with our largest suppliers to understand how we can support them in reducing their GHG emissions, reducing our Scope 3 emission impact. This programme highlighted the key areas for improvement for our suppliers' reporting, and the gaps within our sustainable procurement policies. We are currently developing a strategy to improve both areas.

Our operational GHG emissions continue to be incorporated into our bonus target.

After adopting the TCFD framework for metrics, we described key metrics and targets to manage our physical climate risks in our 2024 Climate Adaptation Report (4th round).

Upon finalising the development of our ESG scorecard, we have enabled our owners, stakeholders, and customers to assess our sustainability and ESG performance. This scorecard is now integrated into the ESG Board Committee's framework and serves as a tool to track our performance progress.

Future focus

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

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

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

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

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

Where else to look



See our directors' report [GHG emission reporting] on [pages 156 to 158](#)



See our approach to sustainability on [page 20](#)

Metrics and targets

For 2025/26, we will continue to develop metrics and targets for the material transition risks and opportunities identified, to allow for the assessment and evaluation of our performance in mitigating climate-related risks and for us to realise the opportunities of transitioning to Net Zero. In addition, we will review our Net Zero Strategy and how the targets within our existing plan may need to evolve, given the potential impact of Ofwat's Final Determination. The development of these metrics and targets will support wider business resilience, with potential for such indicators to be linked to remuneration in future reporting periods. A selection of metrics of how we will monitor and mitigate our climate-related risks are referenced below on the following page.

GHG emissions

In 2019, we joined all UK water companies in pledging to reduce our operational emissions (as defined at the time) to Net Zero by 2030. The emissions included within this target are Scope 1, Scope 2 and Scope 3, where they relate to business

travel, outsourced services relating to IT and admin, waste and electricity transmission and distribution.

In 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 for 2024 increased due to us purchasing standard electricity. We will continue to explore options to reduce our Scope 2 GHG emissions through our own actions, as summarised previously in our strategic response to transition risks. 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.

In 2022/23 we estimated our full carbon footprint for the first time. We are repeating this for 2024/2025 taking steps to improve where possible.

A summary of our GHG emissions is below.

GHG emissions Scope	2022/23 tCO ₂ e	2023/24 tCO ₂ e	2024/25 tCO ₂ e	Comments
Scope 1	5,914	4,995	5,244	We continue to decrease our direct GHG emissions through sustainability improvements we are making to our sites and operations.
Scope 2	– [market based] 43,623 [location based]	39,500[market based] 45,053 [location based]	82,598 [market based] 45,851 [location based]	Our GHG emissions have increased due to us purchasing standard electricity instead of the green tariff which did not provide the best value for our customers.
Scope 3 [categories included]	17,618	108,601	101,294	This year we have included additional categories of indirect emissions from our value chain. We engaged external providers to help us improve our Scope 3 emissions disclosure.
Total	67,155 [market based] 23,532 [location based]	153,097 [market based] 158,650 [location based]	189,136 152,389 [location based]	We are committed to reduction in our operational greenhouse gas emissions by 2030 by optimising solutions ahead of final design and incorporating low carbon energy alternatives.

We used a combination of methods to estimate our GHG emissions, following the principles of the 2015 GHG Protocol Corporate Accounting and Reporting Standard. Operational emissions have been estimated using the water industry Carbon Accounting Workbook ('CAW'). This is a tool used by water companies in the UK, which is updated annually to reflect the latest published UK emission factors. This tool uses the most commonly applied method for calculating emissions by applying an emission factor to activity data, such as fuel consumption. See our greenhouse gas emissions statement in the Directors' report for more details. For Scope 3 we are considering commissioning a specialist to compile a scope 3 inventory. They use activity data where available and apply emission factors from their database. Where activity data is not available, they used alternative data and methods to calculate emissions, this includes

using spend based data or recognised benchmarks. Over time we aim to improve our emissions reporting by capturing and utilising greater amounts of activity data. We are continuing work to better understand all GHG emissions that the company is responsible for across Scope 1, 2 and 3, and reduce our overall contribution to global warming and emissions in line with the UK targets to achieve Net Zero across all emissions by 2050. We do not currently use carbon offsetting to reduce our GHG emissions.

TCFD continued

Physical risks

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

Our headline risks		Our water	Our Network	Our Environment
Water Supply	R1 Increases in demand due to higher temperature	Our surface and groundwater sources are essential for our water supply, especially at times of drought and extreme temperatures. By using water more efficiently we can improve our resilience to drought and other extreme weather events.	A well-maintained network ensures increased resilience at times of water scarcity.	We must protect our environment to ensure our groundwater and surface water sources are sustainable for the future. By carefully managing and diversifying where we source our water, we can increase our resilience to drought and improve the environment.
	R2 Reduced availability of ground and surface water due to drought			
	R3 Increase in competition for and the price of water imports			
Asset resilience	R4 Equipment and asset failure due to extreme weather events	Our water supply relies on a resilient supply system, with flexibility to respond to extreme weather events.	Asset resilience affects the flexibility and resilience of the wider supply system. By investigating flood risk and investing in flood defences we can be better prepared for extreme events.	Nature provides valuable solutions and natural buffers to extreme weather events.
	R5 Outage due to flooding of assets			
Water quality	R6 Changes to raw water quality	Water quality affects our available water for supply and at the same time reduced availability of ground and surface water due to drought can result in deteriorating water quality.	Asset resilience affects our water treatment capacity and therefore our water supply.	The way we manage our environment affects the quality of water that enters our surface and groundwater sources. By working with farmers and land managers we can improve raw water quality and deliver benefits.

Headline Physical Risk		2024/24	2024/25	2030 target	2050 target
1,2,3,4	Leakage - % reduction of three year average of leakage from 2019-20	18.30%	19%	31%	44.10%
1,2,3	Per capita consumption [PCC] - % reduction of three year average PCC from 2019-20 baseline	-1.50%	-0.60%	12.90%	>12.9%
1,2,3	Business demand - % reduction of three-year average PCC from 2019/20 baseline	9.30%	7.30%	11%	7.30%
1, 2	Average time properties experience low pressure	01:47:09	01:55:57	01:43:43	00:45:00
2, 6	Biodiversity units per 1,000km² of business company land	N/A	N/A	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	00:05:00	00:03:58
1, 2, 3, 4, 5, 6	Unplanned outage [% of peak week production capacity]	1.42%	1.45%	2.14%	1.50%
1, 2, 3, 4, 5	Mains repairs [per 1,000km of main]	98.3	113.4	132	123
6	Discharge Permit Compliance	N/A	100%	100%	N/A
6	Number of serious pollution incidents [category 1 & 2]	0	0	0	0
6	Customer contacts about water quality	0.58	0.6	0.67	0.67
1, 2, 3, 4, 5, 6	Operational greenhouse gas emissions [tonnes of CO ₂]	70,317	74,967	74,659	N/A
1, 2, 3, 4, 5, 6	Whole life carbon [% reduction of tonnes of CO ₂ e from baseline]	N/A	N/A	14%	N/A

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 100,000 trees by March 2030.

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

Investment delivery

Throughout the year we have continued to invest in enhancing our resilience and sustainability. This includes the delivery of two new solar installations, capable of producing 2.2 GWh/annum, and feasibility studies for further opportunities, as part of a £4.8 million investment.

We have invested a further £3.49 million in a pump efficiency programme which has been designed to reduce our energy consumption by 4.4GWh/annum.

Our PR24 business plan sets out our most ambitious plan yet, with a final determination allowance investment of £2.3 billion between 2025 – 2030 to ensure we can meet the challenges we face and take care of our environment for our communities now and in the future.

Included within this business plan is an £8.6 million uplift for climate change resilience. This investment is for the mitigation of the highest flood alleviation and power resilience risks, due to climate change, for our customers to be considered as initial steps towards fully monitoring these risks.

Remuneration

In 2023/2024 we set our first whole company bonus target related to GHG emission reduction. The target was to reduce Scope 1 emissions by 5% compared with a 2021/22 baseline. This equates to having annual Scope 1 emissions of 5,970 tCO₂e or less. This target is part of a suite of performance targets which are applicable to all employees. For 2024/25 we have included a more ambitious target by including both Scope 1 and Scope 2 emissions. Having this type of bonus target incentivises our teams to play their part in reducing operational carbon emissions and be conscious of the carbon impacts of their decisions across our sites and operations.

The Remuneration Committee, on behalf of the Board, has previously approved the proposed structure, metrics, and targets for the LTIP schemes covering 2022/23 to 2024/25, which incorporate an element of climate change. 10% of the 2022/23 LTIP scheme targets is linked to the environment: Net Zero (self-generation of 10% of our total energy use from solar power), river restoration (restore 36 over the AMP7 period) and abstraction reduction (27.33 Ml/d reduction). 5% of the 2023/24 and 2024/25 LTIP schemes targets is also linked to Net Zero (reduction in scope 1 and 2 emissions). Performance on these metrics is reported to the Remuneration Committee on behalf of the Board. See the Remuneration Committee report for more details of how the company performed against its targets.

TCFD continued

Internal carbon value

To account for the costs of GHG emissions, we incorporated carbon values in our appraisal of investment options as part of our PR24 business plan, as part of our multi-capitals decision-making framework. The carbon value (£) used ranged from £277-414 per tCO₂e. Within Ofwat's Final Determination, the ODI rate for operational GHG emissions has been set as £188/tonne. We are assessing which value to use for our future investment decision making to optimise the balance between spend and greenhouse gas reduction.

Future focus

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

Over the coming years, we will enhance the metrics and targets we use to monitor and assess progress on managing climate risks and opportunities, aiming to identify relevant metrics across our material climate opportunities and relevant targets across all climate risks and opportunities. We have identified initial transition metrics as a step in monitoring our risks. Further evolution of these metrics is planned as part of our upcoming update to our Net Zero plan. This will coincide with our reassessment of the AMP8 direction, ensuring that our approach to risk monitoring remains aligned with our broader strategic goals.

Task Force on Nature-related Financial Disclosures ('TNFD')

Nature¹ is no longer just a corporate social responsibility issue, but a strategic and financial risk management issue alongside climate change. Nature and climate change are connected and addressing the climate crisis requires a holistic understanding of nature's critical role, and integrated strategies are the most productive way forward.

Healthy ecosystems act as natural carbon sinks, while climate change accelerates biodiversity loss. Affinity Water depends on nature through our operations, and these impacts and dependencies affect our ability to serve our customers, our ability to adapt to climate change, and our ability to meet our regulatory and financial commitments. The Taskforce on Nature-related Financial Disclosures ('TNFD') is a strategic decision-making, risk management and disclosure framework to identify, assess, manage and where appropriate, disclose nature-related issues. The TNFD published its final framework for nature-related financial disclosures in September 2023. TNFD has been endorsed by the UK Government and while adopting the framework is not a mandatory requirement, it demonstrates our leadership in delivering a nature positive future. This is our second year of voluntarily reporting against the TNFD framework and we are making progress on our journey towards alignment.

Governance

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

- Our CEO has overall responsibility and accountability for our nature-related commitments, and is supported by our Board and its Committees ('ESG, ARAC and Remuneration') which have ultimate oversight of nature-related risks and opportunities. Our Executive Leadership Teams play a role in managing our nature risks and opportunities. Several Board members and Senior Management have knowledge in environment and nature and this allows for this expertise to be fed into discussions and decisions by Board Committees and the ELT. [See page 95 for more information on our governance].
- We have a dedicated Natural Capital Manager function and Biodiversity Team.

- 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 and each other, to take care of our integrity, to take care of our business and to take care of our environment and the communities that we serve. It includes our Human Rights Policy and our stance on Modern Slavery.
- Our Environment Policy sets our ambition and commitment to leave the environment in a sustainable and measurably improved state.

Progress this year:

- The Terms of Reference ('TOR') of the ESG Board Committee have been updated to accurately reflect the Committee's alignment with its responsibilities regarding nature.
- Where there are changes in the composition of our Board and Senior Management Team, we are ensuring that they are informed (either via previous experience or training) about nature-related issues and to maintain our knowledge of nature-related disclosure requirements.
- Selected senior management have participated in a TNFD workshop with external experts to inform our progress and disclosure.
- We finalised our WRMP and business plan for the coming years (2025 to 2030), which include actions to manage nature-related risks.
- We continued to raise awareness of our Environment Policy that covers the commitment to comply with legislative obligations regarding the environment and biodiversity and is part of mandatory training. Our Environmental Handbook that is available for all employees and contractors stipulates the requirements when working/managing land that have environmental designations and contain protect species ('AONB, SSSI, LNR, Natura 2000 sites').

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

TNFD continued

Future focus:

- Our aim is to expand awareness and capability of nature-related risks, impacts, dependencies, and opportunities across our Board, ELT, and all our team over the coming years via training, webinars and targeted workshops. For example we hold regular company-wide team webinars and issue toolbox-talks to increase understanding of the opportunities and risks we face as a business from the environment. Our Skill station module Environmental Awareness – eLearning is one of our mandatory compliance competencies applicable to all. We plan to review its content to update on the AMP8 biodiversity commitments.

- We plan to expand our internal incentivisation schemes to drive forward our objectives for nature.
- We will continue to monitor nature-related risks and its impacts on our operations and decision making.
- We are working with our upstream supply chain to help them adhere to similar ethics with regard to human rights and environmental protection via adopting our Supplier Code of Ethics
- We are adding a 'biodiversity compliance' section with criteria to our Site Pride awards, where production sites can be awarded for their biodiversity value and the engagement that the site team have with the biodiversity team. This is to encourage the operational teams to consider more than health and safety when managing their sites.



Strategy

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

- Our material nature-related dependencies include: water supply (availability), water quality, flood regulation, drought management, carbon storage and sequestration, and habitat extent and condition. Our material nature-related impacts include: abstraction, INNS spread and habitat loss from construction of new assets.
- Our business planning and financial planning are underpinned by a series of environmental strategies, objectives and commitments that are the foundation for our business, mutually support each other, and often driven by regulatory targets set by Ofwat and the Environment Agency. For example:
 - The WINEP programme identifies a programme of measures that seek to address or mitigate the impacts of our activities on nature and the wider environment.
 - Biodiversity assessments (relating to BNG costs and compliance) were compiled for our PR24 business plan.
 - Our WRMP24 outlines plans to provide a reliable, resilient, efficient and affordable water supply to our customers between 2025 and 2075. It also sets out how we intend to maintain the balance between water supply and demand; this includes nature-related risks such as drought, and nature-related impacts such as abstraction from groundwater.
 - Our Drought Plan sets out the actions we would take to manage the effects of drought on our water supplies.
 - Climate Change Adaptation Report 2024 is a risk-based review of the challenges posed by climate change to our business, both now and in the future.
 - Tree strategy in place that states the need to plant three trees to replace any one tree that needs to be removed for health and safety or environmental reasons. The tree strategy includes the approach to the management of our tree stock from a health and safety risk perspective, including stipulating the safety inspection interval based on their risk to people or assets, the requirements around felling trees to ensure replacements are being put in their place in safe locations, and sets out our ambition to plant 100,000 trees in the form of standards and hedgerows by 2030.
 - We actively manage our land to enhance biodiversity and have many environmentally focused initiatives to meet and go beyond our statutory commitments.

Case study

River restoration- solution to environmental pressures

Many chalk rivers in our supply area have been modified to meet different human needs over time which has led to reduced resilience to drought and flood events, exasperated further by effects of climate change. The River Colne is currently failing to reach Good Ecological Status as defined under the Water Framework Directive. This project is one example of work we delivered that addresses the morphological issues on the River Colne by carrying out river restoration works to relieve some of the pressures faced.

The objective of this project was to restore natural chalk stream processes and the local habitat to aid the river in becoming more resilient to high flows through the wetter months. As we are now experiencing flood events more frequently, it is important to utilise the flood plain to relieve flooding in populated areas.

The techniques used each address different challenges the river faces. These included reconnecting the flood plain where the river was previously dredged and the contents left of the side of the bank. It used to be common practice for rivers to be dredged, however this has 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 a variation in the flow but also narrowed the channel, perfect for a diverse chalk stream habitat.

We also created backwaters that are a great additional habitat for fish refuge because of the still water. The water level in the backwater can vary depending on the levels of the river.

The original design for this project started in October 2023, with the detailed designs finalised summer 2024. The Flood Risk Activity Permit ('FRAP') was granted by the EA at the end of September 2024 and we mobilised to site 23rd October 2024, with the works being completed November 2024.

Melissa Ahmed, Asset Specialist said: "It's great to see improved chalk stream processes already taking place in the river. Where the berms and tree hinging has happened there is a faster flow and you can already see some clean gravels and we have seen fish in the new backwater! We look forward to seeing the continued improvement in the river for years to come".



TNFD continued

- c. The resilience of our strategy and business model to nature-related changes, developments and uncertainties is evident through our programme of works which is planned from now to 2050 ensuring that we maintain supplies to our customers and protect the environment, even when faced with extreme drought.
- d. All of our direct operations, assets and activities are mapped using Geographical Information Systems and pioneering remotely-sensing and AI supported technology. This includes ecologically sensitive sites such as those within or adjacent to SSSIs, and chalk streams. Key to this is the natural capital account conducted in 2023 which has highlighted the value and importance of our landholdings to our businesses but also to communities by providing them with access to nature and open spaces for recreation.

Progress this year:

- We continue to maintain a 'My Green Lab' certification for our sustainability practices in our laboratories.
- The natural-capital account of our landholdings is being enhanced and updated with specialist remote sensing technology which has been central to building our natural capital approach to managing our assets, especially around land disposal.
- We surveyed 111 sites in preparation for biodiversity net gain assessments in four years time.

Future focus:

- We plan to publish a statement on being 'nature positive' which will describe what nature means to us, how we impact nature and how we derive benefit from it.
- We will build on our existing work to identify the most material interfaces with nature (impacts and dependencies) [e.g. building on previous natural capital assessments, and initial nature interfaces mapping] by undertaking a TNFD gap analysis to review existing programmes and reporting that go beyond selected projects, and our land holdings to our supply chain and a whole range of capital schemes. The gap analysis will allow us to view our existing alignment with the TNFD framework, and opportunities to improve.
- We will endeavour to describe and assess the material nature-related risks and opportunities that could affect our business model, value chain, strategy and financial position, and identify how these arise from our dependencies and impacts on nature. This will inform where we need to take action and monitor metrics.
- Progress with our Land Strategy which will include the process for managing company land specifically for biodiversity, BNG and ensuring decisions around land use are made considering the natural capital value of all land, as well as other opportunities. Through the AMP8 WINEP programme, we have put forward a scheme to plant the remaining 100,000 trees between 2025-2030.

Metrics and targets

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

We report on a number of nature-relevant metrics, and those that are most material to our business are: biodiversity, greenhouse gas emissions, water resources and water efficiency (including leakage), and abstraction reductions. The metrics and targets for these can be found on page 76.

Progress this year:

- We have set up a Performance Insight team to utilise our data from metrics and monitoring and improve our ability to report on these.
- We are using volunteers from the community to help with species monitoring as part of our 'citizen science' initiatives such as INNS OUT Scheme.
- Our Natural Capital Account is allowing us to look beyond our main nature assets and to have a much better understanding of where we are deriving benefits from those assets.

Future focus:

- We will continue to build on our baseline natural capital account to include new remote sensed data each year, and track changes over time.
- We will consider approaches to capture how many of our key suppliers have biodiversity commitments.
- We have a biodiversity performance commitment agreed with Ofwat to enhance biodiversity and ecosystem resilience during AMP8 (2025 to 2030).
- We will look at ways to bring our citizen science monitoring into decision making. We currently have an Ofwat funded national pilot project looking at this in one of our catchments.
- In future, we aim to identify what proportion of our targets (i) address short-term, medium-term, and long-term nature-related risks and opportunities; (ii) what proportion of targets are time-bound and quantifiable and, (iii) what proportion of our geographical sites or priority locations are covered by targets.
- We will review these metrics and targets and look to align with the following areas: natural capital and biodiversity, Invasive species (biosecurity), water, atmosphere and climate and water resources as shown in the following table:

Area	Proposed Metrics and indicators	Targets and progress
Risks and opportunities		
Natural capital and biodiversity	Condition of our priority land holdings	Improve SSSI on our land from unfavourable to favourable condition
	Area of land with funded improvements (ha)	Hectares of funded cover crops
	Biodiversity units relative to AMP7 baseline	36 biodiversity units created
	River restoration	No. of project units completed
Invasive species (biosecurity)	Area of land under management in our supply area funded through INNS OUT scheme (ha)	Hectares of land with funded INNS eradication schemes
Water	Number of pollution incidents (Category 1 and 2)	Zero
	Discharge permit compliance [%]	100% compliance with discharge permits at water treatment works
	Leakage reduction, three-year average [%]	20% AMP7 31% AMP8
	PCC reduction [%]	12.5% AMP7 13% AMP8
Impacts and dependencies		
Atmosphere and climate	GHG operational [tCO ₂ e]	<72,379 in Y1 AMP8
	Carbon intensity (kg/Ml)	<141 in AMP7
	Renewable energy generation	Energy in MWh generated by our solar installations
Water resources	Abstraction reduction [Ml/d]	27.33 [AMP7]
	Abstraction permit compliance	100% compliance with abstraction licenses

TNFD

continued

Risk and impact management

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

- Nature-related risks are identified through horizon scanning and by our risk management framework (explained in detail on pages 49 to 56 including the methodology for assessing risks). Our risk management framework and guidance specifically includes risks relating to ESG. We maintain a formal risk register and risk management system for the identification, evaluation, and mitigation of risks. Our long-term planning processes consider a range of nature-related risks such as drought, flooding, biosecurity risk prevention, climate change and habitat restoration.
- We manage identified risks and opportunities in the near term through our internal asset management system and over the long term through our WRMP which has a 25-year time horizon and is updated every five years. Nature-related risks are monitored as per our risk management procedure and system e.g. material nature risks are monitored like all other material risks.
- Processes for identifying, assessing, prioritising and monitoring nature-related risks are integrated into and informs our risk management processes.
- Our WINEP programme for each AMP has a development phase identifying key risks and issues through stakeholder dialogue and our schemes such as abstraction reductions, river restoration, biodiversity and catchment management are then developed based on this and the Water Industry Strategic Environmental Requirements ('WISER') for which we produced a report on how we meet these requirements for our PR24 Business Plan.

Progress this year:

- We are utilizing Copperleaf’s suite of enterprise software solutions to enable a holistic end-to-end planning process that connects ‘bottom-up’ asset analytics with ‘top-down’ strategic planning
- We are starting to use the outputs and insights from our Natural Capital Account into our accounting practices and decision-making.

Future focus:

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

Non-financial information statement

We aim to 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 03) - Chair’s welcome (pages 04 and 05) - How we operate (page 06) - Measuring how we are doing - Performance highlights (pages 14 to 16) - Chief Executive Officer’s introduction (pages 14 to 16) - Our business model & strategy (pages 18 to 19) - Our approach to sustainability (pages 20 to 23) - Our 2025-2030 Business Plan (pages 24 to 30) - Our planning horizons (page 41)	- Our Purpose and Vision (page 01) - Our business model & strategy (pages 18 to 19) - Our approach to sustainability (pages 20 to 23) - Our alignment to UNSDGs (page 63)
Environmental matters	- Chair’s welcome (pages 04 and 05) - How we operate (page 06) - Measuring how we are doing - Performance highlights (pages 14 to 16) - Chief Executive Officer’s introduction (pages 14 to 16) - Our business model & strategy (pages 18 to 19) - Our approach to sustainability (pages 20 to 23) - Our 2025-2030 Business Plan (pages 24 to 30) - Our external environment (pages 40-43)	- Our Purpose and Vision (page 01) - Our business model & strategy (pages 18 to 19) - Our approach to sustainability (pages 20 to 23) - Our alignment to UNSDGs (page 63) - Task Force for Climate related Financial Disclosures (pages 64 to 78) - Task Force on Nature-related Financial Disclosures (pages 79 to 84)
Community issues	- The communities we serve (page 03) - Section 172(1) statement (pages 30 to 39) - Our planning horizons (page 41) - Financial review (pages 44 to 48) - Principal risks and uncertainties (pages 49 to 56) - Our alignment to UNSDGs (page 63) - Task Force for Climate related Financial Disclosures (pages 64 to 78)	- Our Purpose and Vision (page 01) - Our approach to sustainability (pages 20 to 23) - Our 2025-2030 Business Plan (pages 24 to 30)
Employees	- Chair’s welcome (pages 04 and 05) - Chief Executive Officer’s introduction (pages 14 to 16) - Company culture (page 107)	- Our Purpose and Vision (page 01) - People and Culture Strategy (91) - Equality, Diversity and Inclusion training (page 128) - EDI strategy (page 129) - Gender pay gap (129)
Respect for human rights	- Safety, health and wellbeing (pages 102, 105-107, 111 and 114) - Promoting a culture of diversity and inclusivity throughout the workplace (page 126 and 128)	- People and Culture Strategy (page 91) - Modern slavery and human trafficking (pages 101,106 and 113) - Safety, health and wellbeing (pages 102, 105-107, 111 and 114) - EDI strategy (page 129)

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 113)	- Our code of ethics (pages 105-106, 113 and 114) - Whistle-blowing policy (pages 105 and 119) - Risk management and internal controls (pages 119-120)
Description of principal risks	- Principles risks and uncertainties (pages 49 to 56) - Viability statement (pages 58 to 61)	'Three lines of defence' assurance process (page 119) - Risk management and internal controls (pages 119-120) - Legal obligations register (page 120)
Description of business model	Our business model & strategy (pages 18 to 19)	Chair's welcome (pages 04 and 05)
Non-financial KPIs	2024/25 Highlights (pages 01) - Measuring how we are doing - Performance highlights (pages 14 to 16)	How we operate (pages 06)

Approval of the strategic report

On behalf of the Board

Mike Brown CBE MVO
Company Chair

10 July 2025



Governance

[Overview](#)[Strategic Report](#)[Governance](#)[Financials](#)

In this section

Introduction from Chair	90
Our Board of Directors	92
Corporate governance report	95
Environment, Social and Governance Committee Report	110
Audit, Risk and Assurance Committee report	116
Nomination Committee report	124
Remuneration Report	130
Ownership and financing	151
Directors' Report	156

Introduction from Chair

[Read more on page](#)

90

Our Board of Directors

[Read more on page](#)

92

Corporate governance report

[Read more on page](#)

95

Environment, Social and Governance Committee Report

[Read more on page](#)

110

Audit, Risk and Assurance Committee Report

[Read more on page](#)

116

Nomination Committee Report

[Read more on page](#)

124

Remuneration Report

[Read more on page](#)

130

Ownership and financing

[Read more on page](#)

151

Directors' Report

[Read more on page](#)

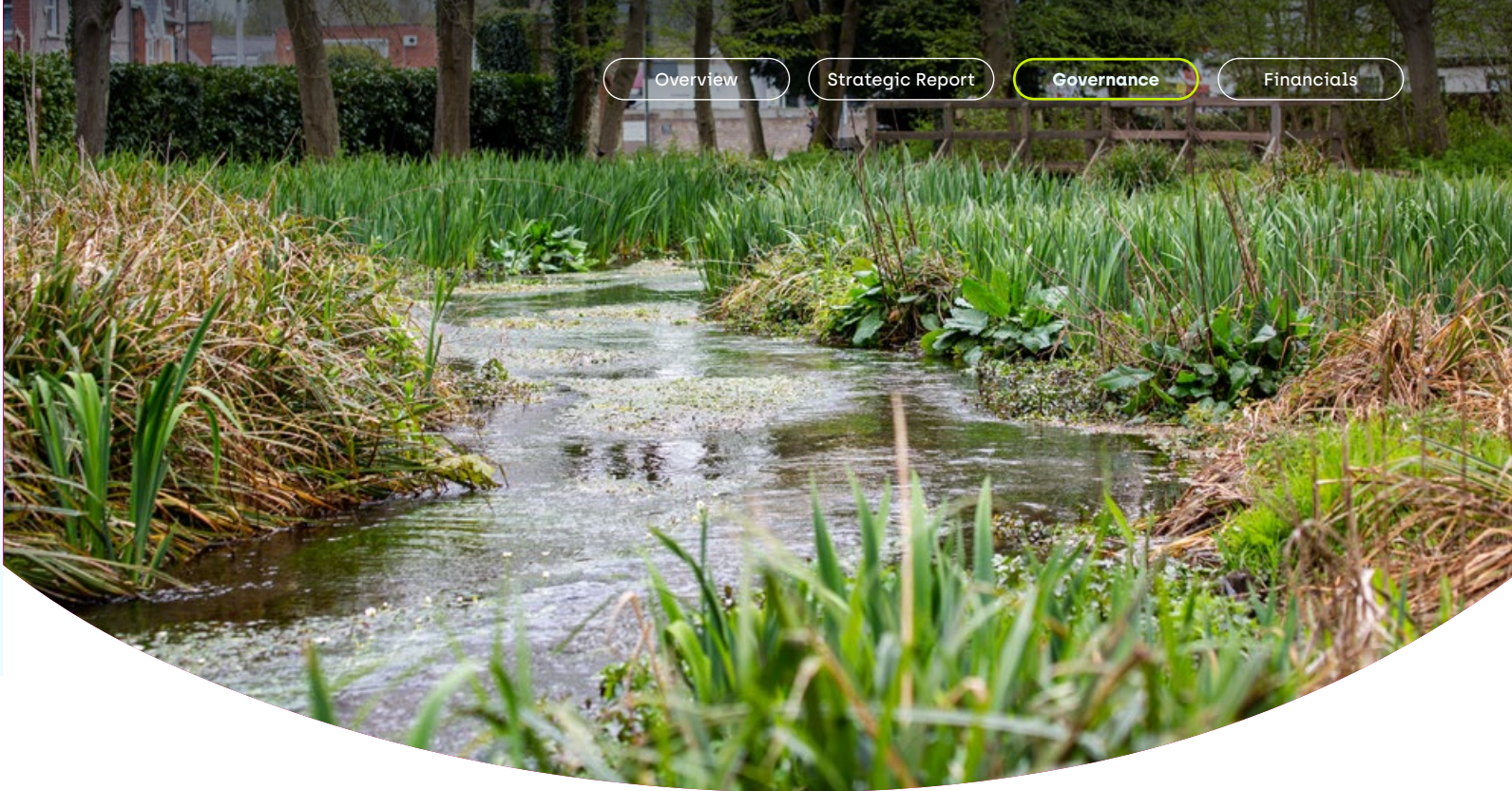
156

Introduction from the Chair



I am inspired by the dedication and hard work demonstrated by the Board, Committees, Executive Leadership Team and all employees of Affinity Water."

Mike Brown CBE MVO
Company Chair



Overview

Strategic Report

Governance

Financials

Dear Stakeholders,

As new Chair of the Board, I am delighted to introduce our corporate governance report for 2024/25 on behalf of the Affinity Water Board and in accordance with the 2018 UK Corporate Governance Code [the 'Code']. The Code sets out standards of good practice in relation to Board leadership, effectiveness, accountability, and stakeholder engagement, providing a framework to ensure strong corporate governance.

This report outlines how Affinity Water continues to comply with the high standards of corporate governance expected of a regulated water company, benefiting our shareholders, regulators, and the public. As highlighted in my Chair's statement on page 4, this has been an exceptionally active year for the Board with significant time devoted to the PR24 business plan, Board composition and induction of new members and the establishment of our new Environment, Social and Governance Committee ('ESG Committee'). This report provides a summary of this important work and a forward look at how we intend to continue supporting Affinity's strategy, performance, and long-term sustainable success.

Board composition and succession planning

Over the past reporting year, the composition of our Board has undergone notable changes, which have been pivotal in strengthening our governance framework. These changes ensure the Board remains dynamic, with the necessary

expertise and diversity to address evolving challenges and steer the company toward sustainable growth. Following my appointment as Chair Designate in October 2024, Ian Tyler and I worked closely together to ensure a thorough handover before his departure in February. On behalf of the Board and personally, I extend sincere thanks to Ian for his significant contributions and for facilitating a smooth leadership transition.

Roxana Tataru rejoined the Board after her maternity leave, during which Andrew Cox served as her alternate until stepping down on 10 June 2024.

Trevor Didcock, a Board member for nine years, stepped down at the end of February 2025. During his tenure, Trevor served as Director of Employee Engagement, Senior Independent Director, and Chair of the Remuneration Committee. His unwavering dedication to the Board is deeply appreciated. As Chair of the Remuneration Committee, Trevor provided a full handover to Shelley Malton, who formally assumed the role on 1 January 2024.

In October 2024, Martin Roughead stepped down as CFO. Following a successful recruitment process led by our Nomination Committee, Adam Stephens joined as the new CFO and Executive Director on 1 January 2025. My thanks go to Keith Haslett, our CEO, who also covered much of the strategic CFO role during the intervening period.

We also welcomed Simon Pugsley in a newly created role as General



Highlights

- Successful PR24 approval, which represents a key milestone in our regulatory journey. This approval ensures that we are well-positioned to deliver on our commitments to customers, while maintaining financial resilience and driving forward our environmental and operational objectives.
- Welcomed Roxana Tataru back from maternity leave in June 2024 and Adam Stephens as new CFO in January 2025.
- Development and successful launch of new People and Culture Strategy.
- Continued review and development of our corporate governance provisions in preparation for the 2024 UK Corporate Governance Code [the 'New Code'] ahead of FY2025/26.
- Justin Read appointed as Senior Independent Director on 1 September 2024.
- Launch of new Environment, Social and Governance Committee led by Chris Newsome, Director of Employee Engagement.

Counsel and Company Secretary on 1 April following Patrick Makoni's departure as Group Company Secretary at the end of the financial year. This role supports our continued commitment to the highest standards of governance as a Board and as a company.

Further details on these changes, as well as a summary of the full induction programme undertaken by myself and Adam, can be found in the Nomination Committee report on pages 124 to 129.

People and Culture Strategy

The Board remains committed to upholding the highest standard of governance and fostering a positive corporate culture.

Our company's culture underpins the way we operate and is continuously evolving. For example, we have implemented quarterly employee engagement surveys that show our engagement score has increased from 7.3 in February 2023 to 8.1 in February 2025.

Additionally, the launch of our four inclusion networks between 2022 and 2024 has seen over 300 employees taking part and an increase in how well our people rate our approach to diversity and inclusion, now scoring us 8.5 out of 10.

At our Board strategy day in November 2024, the Board approved the revised People and Culture Strategy. This strategy, developed during the year, aligns closely with

our business plan and reinforces our commitment to cultural transformation and inclusivity in the workplace. Recognising the challenges, we are proactively working to ensure our workforce remains engaged, adaptable, diverse, and well-equipped. Additional details can be found on page 107.

Board effectiveness review

In March 2025, the Board conducted an internal effectiveness review, which included an evaluation of Committee performances and an opportunity to consider future challenges and ambitions. Further details of the evaluation, its findings, and progress made since last year's review are on page 100.

Our new Environment, Social and Governance Committee

In February 2024, the Safety, Health, Environment and Drinking Water Quality ('SHEDWQ') Committee was formally dissolved to make way for the establishment of our new ESG Committee, underscoring our heightened commitment to Environmental, Social, and Governance (ESG) objectives. A comprehensive ESG strategy roadmap was developed, along with revised Terms of Reference and remit to guide the Committee's activities. Chris Newsome remains the Chair, ensuring continuity and leadership. More details on the new Committee's strategic plans and ongoing initiatives can be found on page 110 onwards.

Looking Forward

I am inspired by the dedication and hard work demonstrated by the Board, Committees, the Executive Leadership Team and all employees of Affinity Water. We will convene in July for a dedicated strategy day to address key priorities and set the course for the future.

Mike Brown CBE MVO
Company Chair

10 July 2025

Documents available on our website
affinitywater.co.uk/corporate/about/governance-assurance
include:
Matters reserved to the Board
Non-Executive Director letters of appointment
Terms of Reference for Board Committees

Our Board of Directors



Mike Brown CBE MVO
Chair



Date of appointment
October 2024

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.

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 on the Experienced Leaders programme and Strategic Leaders Consultation.

Current external appointments

He is Chair of the Rail Safety and Standards Board and is on the Board of Translink - Northern Ireland's transport authority as well as being an Adviser and Independent Chair of the Shareholder Committee for Mott MacDonald.



Keith Haslett
Chief Executive Officer



Date of appointment
January 2023

Career

Since joining as CEO in January 2023, Keith has been leading a vast programme of work focused on sustainability, investment in infrastructure and reducing the demand for water. A chartered civil engineer, he has a career spanning 25 years in the water industry working in both public and privately owned water companies in England, Northern Ireland, and New Zealand. Prior to his role at Affinity Water, he was Water Director at Northumbrian and Wastewater Director at United Utilities and held other senior roles within Northern Ireland Water.

Skills and experience

Keith is a qualified engineer with comparative business and operations experience in the regulated water and wastewater sectors in the UK, both with large private and listed companies. With a wealth of water industry experience in senior roles within PLC and government utility businesses, Keith has a BEng in Civil Engineering and an MBA from The Queens University of Belfast.



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.

Independent Non-Executive Directors



Justin Read
Independent
Non-Executive Director



Date of appointment
July 2020

Career

Justin was CFO of SEGRO PLC from 2011 to 2016, and Speedy Hire PLC from 2008 to 2011. Previously, he had worked at Hanson PLC, Euro Disney SCA and Bankers Trust Company.

Skills and experience

Justin has a wealth of financial and management experience working as an executive and non-executive across a number of different industry sectors in a wide variety of businesses both within the UK and internationally. Justin has an MBA from INSEAD in France and a MA in Modern History from Oxford University. He was appointed AWL Senior Independent Director on 1 September 2024.

Current external appointments

Justin is the Senior independent Director and Chair of the Audit Committee and member of the Remuneration and Nomination Committees of Grainger PLC. He is also a Non-Executive Director and Chair of the Audit and Risk Committee and member of the Remuneration and Nomination Committees of Marshall of Cambridge (Holdings) Ltd. He is also a Non-Executive Director at Ibstock PLC and Chair of the Audit Committee and a member of the Remuneration and Nomination Committees.



Chris Newsome OBE
Independent
Non-Executive Director



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 UK Water Partnership Limited. He has recently been appointed to the Government's new Circular Economy Task Force.



Shelley Malton
Independent
Non-Executive Director



Date of appointment
December 2023

Career

Shelley is a FTSE-30 operating Board-level Managing Director, with a strong commercial focus delivering customer centricity, people leadership, cultural and transformational change. With over 25 years of experience in the financial services industry, she has led major transformations at Vodafone, Experian and Barclays, including customer experience, outsourcing, automation and operations transformations.

Skills and experience

Shelley brings a 25+ year track record in customer experience turnaround, operations, digital, cyber, and commercial roles in global, regulated businesses of high complexity across multiple sectors. Shelley holds an Associateship of the Chartered Institute of Bankers and is a Graduate of the Chartered Institute of Personnel and Development.

Current external appointments

Shelley is Director of Operations at NatWest Group PLC.

Key

A Audit, Risk and Assurance Committee

R Remuneration Committee

E Environment Social and Governance Committee ('ESG Committee')

N Nomination Committee

Indicates Chair of Committee

Shareholder-nominated Independent Non-Executive Directors



Roxana Tataru
Non-Executive director



Date of appointment
July 2021

Career

Roxana is currently a director at Allianz Capital Partners, where she focuses on portfolio management and the origination of investment opportunities across the infrastructure sector. Roxana was, previously, at RBC Capital Markets where she performed various infrastructure M&A and financing advisory roles, latterly as an associate for the organisation.

Skills and experience

Roxana has a wealth of financial experience working in asset management, banking, finance, and capital markets across the sector. She holds a BSc in Management (Accounting and Finance) from Manchester Business School.

Current external appointments

Roxana is a member of the Board of Floene, Portugal's largest gas distribution network and has been Director of four Porterbrook Group companies since 2022.



Mike Osborne
Non-Executive Director



Date of appointment
April 2022

Career

Mike began his career in 2002 with Ernst & Young and then moved to Citi, where he advised on project financing, mergers and acquisitions and capital raising within the infrastructure sector, before joining Citi Infrastructure Investors in 2008. Mike then spent six years with Corsair Capital as a Principal, where he also served as a Board member of Corsair portfolio companies Kelda Holdings (from 2013), its regulated subsidiary Yorkshire Water Services (from 2017), and Itinere Infraestructuras, a toll road platform in Spain (from 2014).

Skills and experience

Mike is an experienced investment professional, whose career includes over ten years on water company Boards, engaging with the key regulatory, operational and financial issues facing the sector. He holds an MChem degree in chemistry from the University of Oxford.

Current external appointments

Mike has been Managing Director at InfraRed Capital Partners since October 2021 and oversees investments including Arqiva, High Speed One and Affinity Water. He is also a Director of Queen Alexandra Hospital and Barnet Hospital.



Adam Waddington
Non-Executive Director



Date of appointment
May 2023

Career

Adam is a Managing Director at DIF Capital Partners and head of the Portfolio team. He joined DIF in 2013 and has served as Board member for a number of companies in the social, economic and renewables infrastructure spaces, including offshore and onshore wind, hospitals, roads, housing, and education projects. Adam established the Portfolio team at DIF to provide analytics, performance reporting and valuations across the range of DIF investments. From 2006 to 2013, Adam developed investments in the PPP and regulated sectors at Babcock & Brown and, subsequently, Amber Infrastructure. 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 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

- Audit, Risk and Assurance Committee
- Remuneration Committee
- Environment Social and Governance Committee ('ESG Committee')

- Nomination Committee
- Indicates Chair of Committee

Corporate governance report

Our governance framework and division of responsibilities

Governance Framework

The Board operates within a clear corporate governance framework comprising matters reserved for the Board and various Board Committees with clear Terms of Reference, all of which may be found on our website.

The Board

Our Board takes responsibility for setting the Group's strategy for delivering mutual long-term value to our shareholders and other stakeholders, providing effective challenge to the executive concerning the execution of the strategy and ensuring the Group maintains an effective risk management and internal control system.

The Schedule of Matters Reserved for the Board is available on the company's website at: affinitywater.co.uk/corporate and members of the Board appear in the directors' biographies on pages 92 to 94.

Board Committees

Each Board Committee has its own Terms of Reference which are available on the company's website at: affinitywater.co.uk/corporate

Audit, Risk and Assurance Committee
Oversees the Group's financial reporting, maintains an appropriate relationship with the external Auditor, and monitors internal controls.

ESG Committee
Reviews the company's ESG compliance, considers the scope of its ESG activities and supports opportunities to increase both public and shareholder value to enhance outcomes for customers, communities and the natural environment.

Nomination Committee
Evaluates and makes recommendations regarding Board and Committee composition, succession, planning and directors' potential conflicts of interest.

Remuneration Committee
Establishes Affinity Water's Remuneration Policy and ensures a clear link between performance and remuneration.

Chief Executive Officer

Executive Leadership Team ('ELT')

The ELT is composed of seven senior directors across the key areas of the business led by the CEO to assist with the development and execution of the company's strategy. Individual ELT members are responsible for leading their directorates and ensuring their areas of the business are being run effectively and efficiently. The ELT holds one operationally-focussed and one strategy-led meeting each month and is responsible for the day-to-day running of the business.

Roles and responsibilities of the Board

Role	Name	Responsibility
Chair	Ian Tyler (until 17 Feb 2025)	The Chair leads the Board and is responsible for its overall effectiveness in directing the company. He promotes a culture of openness and debate, facilitating constructive Board relations and the effective contribution of all Non-Executive Directors, and ensures that the Board receives accurate, timely and clear information.
	Mike Brown (Chair Designate from 1 October 2024 until 17 February 2024 where he became Chair)	
Chief Executive Officer	Keith Haslett	The CEO is responsible for the day-to-day running of the company's business and the development and implementation of strategy, decisions made by the Board, and the operational management of the company, supported by the ELT.
Chief Financial Officer	Martin Roughead (until 4 October 2024) Adam Stephens (appointed 1 Jan 2025)	The CFO is responsible for managing the financial actions of the company. Duties include tracking cash flow, analysing strengths and weaknesses to propose corrective action plans when necessary, and preparing accurate forecasts so that management can make informed decisions about future spending.
Senior Independent Non-Executive Director ['SID']	Trevor Didcock (until 1 September 2024) Justin Read (effective 1 September 2024)	The SID is an independent Non-Executive Director, who provides a sounding Board for the Chair and serves as an intermediary for the other directors and shareholders where necessary. The SID also leads the annual appraisal and review of the Chair's performance.
Non-Executive Director of Employee Engagement	Chris Newsome	The Non-Executive Director of Employee Engagement is responsible for ensuring that the interests of the company's employees are considered by the Board when making significant decisions through an active employee engagement programme.
Non-Executive Director	Trevor Didcock (until 28 February 2025) Chris Newsome Justin Read Roxana Tataru Adam Waddington Andrew Cox (resigned as alternate 10 June 2024) Shelley Malton	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	Patrick Makoni (until 30 March 2025) Simon Pugsley (appointed 1 April 2025 as General Counsel and 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.

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 Diligent, a secure online 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.

The Board holds regular strategy sessions as part of the Board meeting programme. This year's Strategy Day was held in November 2024 in person, where directors reviewed the company strategy by way of a series of deep dives which included PR24 Final Determination Decision planning, AMP8 Operational and Retail Deliverability and Strategic Resource Options. The Board requires regular updates on the progress of delivering the strategic objectives throughout the year.

Risk management

Our governance framework, which has been reviewed and further developed over this year, supports the development and delivery of strategy, while ensuring the long-term success of our business by maintaining a sound system of risk oversight, management, and an effective suite of internal controls. These are detailed further in the Audit, Risk and Assurance Committee report on page 116.

Board meeting attendance

The Board and its Committees continues to conduct meetings both in-person and remotely via Microsoft Teams. Attendance records of the current Board are depicted to the right. All directors receive papers in advance of every meeting via Diligent Boards 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 2025, 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.

Member	Board meeting	
Company Chair		
Mike Brown	6	6
Independent Non-Executive Directors		
Chris Newsome	14	14
Shelley Malton	14	14
Justin Read	14	14
Non-Executive Directors		
Mike Osborne	14	14
Roxana Tataru	12	12
Adam Waddington	14	14
Executive Directors		
Keith Haslett	14	14
Adam Stephens	5	5

Trevor Didcock – Resigned on 28 February 2025

Andrew Cox – Resigned on 10 October 2024

Martin Roughead – Resigned on 4 October 2024

Ian Tyler – Resigned on 17 February 2025

KEY

● Meetings attended

● Meetings during tenure

Board leadership and company purpose continued

External directorships and time commitment

The anticipated time commitment required from Non-Executive Directors to effectively fulfil their responsibilities on the Board is set out in a director's term 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 92 to 94 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 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 mediating measures, and the Director is excluded from discussions and voting on the matter.

Board balance

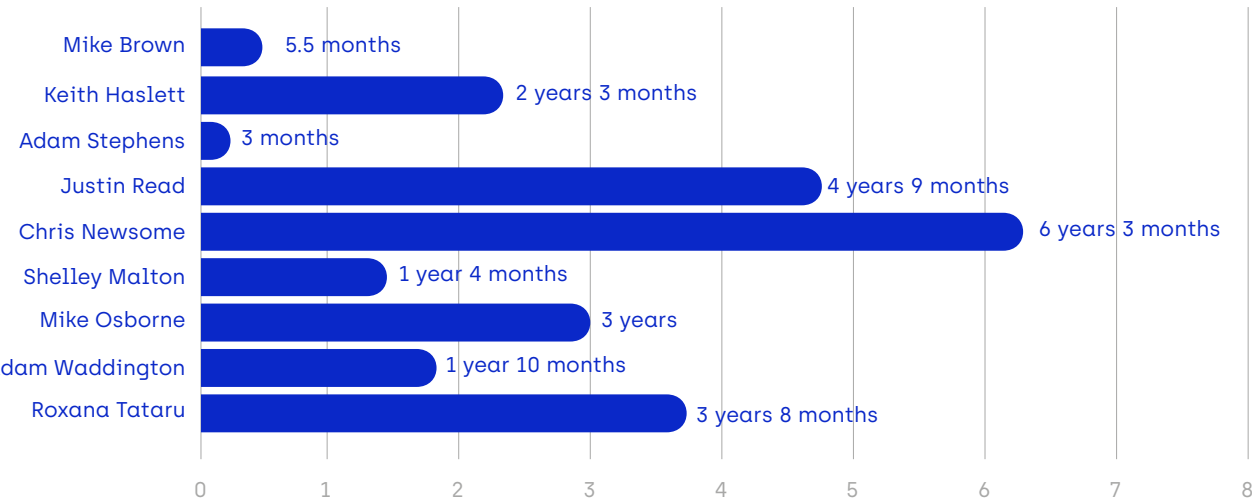
An effective Board requires a balanced mix of professional skills and experience in addition to varied backgrounds and individual perspectives. Our Board offer a diverse mix of experience, industry knowledge and thoughts. The length of each Director's tenure as an AWL Board member is depicted below and an overview of the current key skills and attributes of the Board is 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 majority of our Board is comprised of Independent Non-Executive Directors. The composition of the Board as at 31 March 2025 is illustrated on pages 92 to 94.

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 124 to 129, provides further information on Board composition, appointments, induction, training, succession planning and diversity from 2024/25.

The balance of Independent and Non-Independent Directors ensures that shareholder views are represented on the Board with the Board as a whole acting independently in the interests of all stakeholders and the company in accordance with our Instrument of Appointment, with no one individual, or group of individuals, dominating the Board's decision making.

Board tenure as at 31 March 2025



Board balance, skills and experience

		Mike Brown	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

Evaluating our Board

An annual review of the Board and its Committees is carried out to reflect on the quality and effectiveness of its decision-making as well as an opportunity to identify any areas of further development. In light of the change in Chair earlier this year, an internal assessment questionnaire was designed to both review the effectiveness of the Board as well as consider the contribution and performance of the Committees and individual directors. The questions focussed on themes around meetings management, Board and Committee membership, Board structure, directors' compensation, Board culture and ethics, Board roles and responsibilities, relationship with management and corporate governance

arrangements. Before stepping down, Ian Tyler conducted one-to-one review meetings with each independent non-executive director ('iNED') as well a thorough information-sharing exercise with Mike Brown as incoming Chair. A discussion of the feedback from the internal reviews was undertaken at the Board meeting held in May 2025. In line with best practice set by FRC's Guidance on Board Effectiveness, we have previously sought to hold an externally facilitated review every three years, however, in consideration of the recent Board changes, our intention is to instruct an external review of the Board and its Committee at the end of 2025 to allow the new members of the Board suitable time to establish themselves in role.

2024/25 evaluation findings

Area identified as requiring focus	Action plan and initial progress
Board training programme	In consultation with the Chair and the Nomination Committee, development of a new bespoke Board training programme is underway with purposeful consideration of the existing Board skills and expertise. This programme is intended to be interweaved into existing meeting cadence as well as dedicated remote and in-person sessions where appropriate
Feedback	The Board dynamic was found to be collegiate, constructive and focussed on positive outcomes for all stakeholders. An area of focus to strengthen this dynamic is to consider scheduling regular opportunities for the review and feedback sessions between Chair and individual Board members which the General Counsel and Company Secretary will be arranging going forward
AMP8 delivery plan	A dedicated Board strategy day has been scheduled to be held in July 2025 which will have a strategic focus on AMP8 delivery plans with presentations from members of the executive team and open Board discussion

Progress on 2023/24 outcomes

Area	Action taken
PR24	Additional time was built into the existing Board's annual programme of meetings in addition to scheduling further meetings and briefings along the PR24 journey to allow the Board to fully consider and discuss the company's AMP8 Business Plan
Monthly CEO and CFO reporting	Both the CEO and new CFO conducted a thorough review exercise on the data pack formats and focussed the material to ensure information was directly linked to the strategic outcomes for Board consideration
Risk management	Audit, Risk and Assurance Committee and the Board have conducted a number of risk management deep dive sessions with focus on risk visualisation and reporting, an in-depth review and consolidation of our principal risks as well as compliance with Provision 29 of the 2024 revision of the UK Corporate Governance Code

Progress on 2023/24 outcomes continued

Area	Action taken
Paper format and focus	Following adoption of the Board paper template that was launched in 2024, the format has improved, and papers are more concise, relevant and focused on key issues. Further evolution is planned moving into 2025 to develop a headline executive summary within each paper focusing on the key strategic issues for Board discussion
Diversity	The Board affirmed its commitment to supporting and overseeing initiatives that promote diversity, inclusion and equal opportunity across the business and wider communities by approving the Diversity and Inclusion Commitment. More details on this pledge can be found on page 128.
New Chair onboarding	Working together, the CEO, SID and Company Secretary delivered a bespoke onboarding programme of meetings, briefing sessions and site visits to ensure an efficient and smooth transition between Chairs. Mike Brown has been in role since February and continues to meet with various stakeholders and attend briefings as part of his first year as Chair

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 - Approved the company's AMP8 Investment Plan and continuous transformation programme - Approved sustainability plans to protect chalk streams within our supply area - Reviewed the energy efficiency and property strategies	
Finance	- Approved the Annual Report and Financial Statements for the financial year ended 31 March 2025 - Reviewed and approved an updated dividend policy - Approved the company's budget for the financial year and ten-year base case cash flow forecast - Provided oversight and approval of related financial policies, ensuring compliance with the company's Instrument of Appointment - Additional governance scrutiny provided by the Audit, Risk and Assurance Committee	
People	- Reviewed ELT pensions for alignment with all employees - Approved the company's Culture and People Strategy, which launched in 2024 - Approved the company's policy on Modern Slavery and Human Trafficking - Approved the 2025/26 workforce pay settlement	

Key

Customers

Suppliers

Shareholders

Communities

Regulators

Employees

Area	What was reviewed and considered?	Relevant stakeholders
Governance	- Undertook an internal Board Effectiveness Review led by the Chair - Considered the Board and Board Committee evaluation reviews - Undertook a review of stakeholder engagement and the strength of each relationship - Considered impact and accommodation of new Corporate Governance Code provisions - Approved an amendment to the company's articles of association incorporating a new objective placing customers and the environment at the heart of the company's objectives in response to a request from Defra	 
PR24	- Played a pivotal role in the PR24 process by ensuring strong governance, transparency, and accountability. It challenged, scrutinised, and assured that the business plan was customer-focused, financially sustainable, and resilient to future challenges, thus supporting Ofwat's goal of delivering a fair, sustainable, and efficient water sector - Accepted Ofwat's Final Determination of our 2025-2030 Business Plan on 17 February 2025	     
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 any incidents involving RIDDOR Dangerous Occurrences, High Potential Events or 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 mental health and successful feedback as detailed further on page 107	

At each Board meeting, standing items include:

- Declaration of interests
- Review and approval of the previous minutes
- Status update on any outstanding actions from previous meetings
- Updates from each Committee to the Board
- Business Scorecard Report from the Chief Executive Officer
- Report from the Chief Financial Officer

Key



Customers



Suppliers



Shareholders



Communities



Regulators



Employees

Board leadership and company purpose continued

Corporate Governance Statement

The company is committed to high standards of corporate governance and transparency. The Board governs the company in accordance with the UK Corporate Governance Code 2018 [the '2018 Code'] up until 1 January 2025 when the UK Corporate Governance Code 2024 [the '2024 Code'] came into effect, which we continue to comply with. We also meet the provisions of the Ofwat Board Leadership, Transparency and Governance Principles 2019 ['BLTG Principles'] and the Affinity Water Corporate Governance Code ['AW Code']. We confirm that we have complied with the provisions of the 2024 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. By virtue of the two Executive Directors, our CEO and CFO, being ex-officio Board members and, therefore, excluded for the purposes of Provision 11, we have carried out our own annual independence assessment and consider the Board to be independent.
- Composition of ARAC and Remuneration Committee: Provisions 24 and 32 Our ARAC and Remuneration Committees, each 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

Our business has an impact on, and is affected by, a number of different groups. These include our employees, our shareholders, and the bodies that regulate us. These are our stakeholders. This section details which stakeholders we've spoken to, and worked with, over the last financial year.

Regulator engagement

Ofwat

As a water company, Ofwat is both our regulator and 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 PR24 process. To ensure that we are fully aligned with Ofwat's BLTG Principles, we incorporated the following four BLTG objectives into our AW Code:

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 independence of our Non-Executive Directors - Reviewing the division of responsibilities between our Chair and CEO - Introducing a framework for engaging with our shareholders
Board leadership and transparency	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 long-term
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

Stakeholder engagement



Partnerships

We continue to work with local environment groups and charities to support our long-term objective to leave the environment in a sustainable and measurably improved state. We work within Catchment Partnerships to improve and protect local chalk streams across our supply area. This includes Herts and Middlesex Wildlife Trust, Chilterns Chalk Stream Project and Groundwork South. The Wildlife Trust help manage our Local Nature Reserves for people and biodiversity, providing expert advice and opportunities for local engagement. We are building on common objectives and sharing messages together to raise awareness with the local community about how they can protect nature by saving water at home. These connections provide valuable local knowledge and context, creating opportunities to combine funding and resources to deliver better value and outcomes in a more holistic way.



Engagement with our local communities

Serving and engaging meaningfully with our communities is key to improving our performance and creating greater understanding around the value of water. Many of our people live and work in our supply areas and we're proud to provide four volunteering days each year known as 'Affinity Days' so that our staff can support causes closest to them.

We continue to support charities through our investment with the Hertfordshire Community Foundation, providing annual grants to support local community projects and voluntary groups. In 2025, we have chosen to support Herts Vision Loss and Hemel Morning Deaf Group. Members are often excluded from mainstream clubs and activities due to challenges with communication and lack of support for their needs. Both of these community organisations provide services to support vulnerable customers, enabling them to meet and avoid isolation. Services include personalised advice, surgery sessions and workshops, which help participants to access valuable information and maintain independence.

Affinity Water's Save Our Streams ('SOS') water-saving initiative continues to empower households to adopt simple, sustainable daily habits to save water each day and protect our precious environment. Over the past year, we've registered 48,000 new participants bringing the total number of stream savers to 360,000. This initiative also includes our home leaks campaign and leak visit service designed to help customers detect and repair leaks in their homes. This service offers households the opportunity to get their leaks fixed for free, with potential savings of up to £2,000 per year. To date, it has contributed to saving over 160,356 litres of water per day since October 2024. Alongside this, we have developed the Water Smart Education Programme to emphasise the importance of water conservation and its role in protecting the environment in schools. In collaboration with educational specialists, we have designed a programme for Key Stage 2 students which provides engaging, curriculum-based resources to promote lifelong water-saving habits. So far over 220 primary schools have registered, with a total of 500 schools across our supply region invited to participate.



Political engagement

We engage with government departments and parliamentarians to keep them updated on our operations and strategic priorities. In 2024, we developed our '10 steps to water security' policy paper setting out the likely shortfall in water supplies caused by climate change and population growth. The paper made recommendations that a new government could take forward to tackle this vital issue and was circulated to key stakeholders including policy makers and NGOs. We also continue to engage with reviews and consultations to reform the sector and build public trust including the Water (Special Measures) Bill – now Water Act – and through the newly launched Independent Water Commission.

We regularly engage with MPs, Councillors and Local Authorities within our supply area to share information on improvements or changes that may impact the communities they serve. Our supply area includes both rural and dense urban communities, which have diverse needs and sometimes conflicting priorities. Working closely with local authorities is essential to ensuring a holistic approach to water management, in 2024 we held 7 meetings with local planning authorities to share information and responded to approximately 290 planning applications.

To increase awareness of water and the natural cycles upon which we are reliant, we produce a monthly water resource update which provides an overview of groundwater and rainfall levels. Alongside this, we provide advance notice of all our large capital work projects that could impact the local community.

Board leadership and company purpose continued

Speaking with our shareholders

Our Group structure, ownership and financing can be found from page 151 onwards and depicts that Affinity Water is owned by a consortium of private investors.

Each of our private investors are represented on our Board. Roxana Tataru is the Shareholder-Nominated Non-Executive Director representing Allianz Capital; Mike Osborne represents InfraRed Capital Partners; and Adam Waddington represents DIF Capital Partners.

To ensure that the Board remains fully focused on the activities of the company, and the interests of all its stakeholders, the Board has an established process for engaging with its shareholders and for their views to be represented in Board discussions without compromising the independent judgement, leadership, and governance of the Board.

While our Board considers the views of our shareholders in its deliberations, it acts independently and in the best interests of the company. Affinity Water values the expertise that can be brought into consideration through the experience and expertise shareholders bring to these decisions.

A limited number of matters require shareholder consultation before decisions can be made. These are,

largely, similar to the matters Affinity Water's senior financiers have control rights over and are set out in the governance framework document 'Engaging with our shareholders' at: affinitywater.co.uk/governance-assurance, available on the governance pages of our website.

During 2024/25, 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 2025/26
- Approval of the PR24 business plan
- Recruitment and appointment of Mike Brown as new Chair
- Recruitment and appointment of Adam Stephens as new CFO
- Conducted an internal effectiveness review, including responses 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 30 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 operational team at Folkestone in June, Capital Delivery team and the contact centre team at our Cherry Garden site. He has also attended asset site visits at Hillfield Reservoir and Preston Reservoir, and participated in a market stalls event with contractors as part of the October Senior Leader Forum.

Chris also liases with the People team and oversees our employee engagement programme, which encourages our employees to stay engaged and connected with the company via a multitude of mediums.

- 39 employees are qualified mental health first aiders appointed to support the health and wellbeing of our employees
- 14 meetings/forums held over the year
- 8 wellbeing webinars held

Workforce policies and procedures

In accordance with our policies framework, the Board and/or ELT review and approve all key workforce policies and practices. Our policies are published on the company's document management system, Athena, easily accessible to all employees and reviewed on a regular basis.

Our induction programmes for our new joiners and new managers include training and briefings on all core policies, and any subsequent updates are communicated through the appropriate communication channels. The company intranet signposts all the policies and practices that underpin AWL employment as well as expected conduct and behaviours in our established Code of Ethics.

All employees are required to complete mandatory e-learning on a regular basis to make sure that our policies are understood and embedded in our business practices. This programme is overseen by the Learning and Development team with important input from subject matter experts who curate specialised training for their respective areas.

The Board respects the right of its employees to be members of trade unions. Our CFO and Director of People and Culture meet with employee trade unions at quarterly meetings of the Joint Negotiation and Consultative Committee to consult on workforce policies and practices.

It is vital for our workforce to be able to raise any concerns with management and the Board confidentially, and anonymously if desired. An independent and confidential helpline 'Luminate' is available 24 hours a day, 365 days

a year via the web or a dedicated phone line as part of our Whistleblowing Policy. Luminare is publicised across the business and is also made available externally on our website. Employees are supported to do the right thing by 'shining a light' on any issues or concerns that might be incompatible with the standards and values we set ourselves. More details can be found in the ARAC Report on page 116.

All reports of incidents reported this year were thoroughly investigated by the company's Ethics and Compliance team, working with executive and senior management teams and external advisors if required, with matters being brought to the attention of the Audit, Risk and Assurance Committee and the Board. While some reported incidents presented an opportunity for enhancing the company's internal controls, the Board remains confident that its Whistleblowing Policy is effective and continues to promote its awareness amongst stakeholders.

As a highly regulated business, the Board is cognisant of human rights issues and upholds a zero-tolerance approach to modern slavery and human trafficking across our business and supply chain. The Board approves both the Whistleblowing Policy and annual statement on Modern Slavery and Human Trafficking which can be found on our website [affinitywater.co.uk](https://www.affinitywater.co.uk).

These compliance documents are adhered to by our employees and suppliers who provide support for major capital programme delivery, operational support, as well as services and supplies. Our procurement team monitor compliance with the Whistleblowing Policy in our supply chain and report any breaches to our CFO, who then brings these to the attention of the Board as a whole.

We are pleased to report that no incidents of modern slavery and human trafficking were reported during the financial year.

Company Culture

Developing our company culture

During 2023/24, significant work was undertaken to review and understand our company culture and its origins, and to consider how we could shape its development, so we had the right behaviours and ways of working to achieve our strategic objectives. A series of employee roadshows and leadership workshops took place to refresh our purpose and clarify our vision and values. These were launched across the business in April 2024.

Following the launch, work has been underway to develop and launch a new 'Lead the Way' leadership behaviour framework, align our people policies with the desired culture, and ensure our onboarding experience conveys our culture and expectations to new joiners. In November 2024, a new people and culture strategy was approved by the Board, which places developing our culture as one of the core strategic priorities.

Why is it so important to us?

As we begin our transition into AMP8, we know that we need a strong company culture that brings our people together by creating a shared sense of purpose, a common set of values and a common understanding of expected behaviours and ways of working. This will help us successfully adapt to change and be resilient when faced with external challenges.

The new People & Culture strategy has also been developed with a clear recognition of the areas of challenge that we face with an ageing workforce and competition to attract and retain talented individuals, with the right skills and capabilities from our increasingly diverse communities. In 2024/5, we have focused on strengthening our employee value proposition and more clearly communicating what benefits we offer: a strong sense of purpose, challenge and being part of innovative projects, career support and growth, reward and recognition, openness and engagement, and benefits that flex to different career and life stages. This is underpinned by a strong focus on equality, diversity and inclusion (through our 'diverse voices, one team' strategy) and employee health, safety and wellbeing (through our 'Zero Harm' strategy).

What does the Board do to access company culture?

In October 2022, we began using an online employee listening platform (Workday's Peakon) to run a quarterly 'Tap In' engagement survey. In each round, we have had response rates of between 76% and 82%, which makes our results highly accurate. The Board have received regular updates on themes emerging from the quarterly surveys which provides valuable insights into company culture.

Employees are asked to provide scores in response to questions for 14 drivers of engagement. These drivers are based on evidence that shows feelings of autonomy, relatedness and competence are critical to motivation. Employees can also leave anonymous comments in response to each question, which managers can respond to and interact with. Teams are encouraged to reflect on their engagement results together, celebrating what is going well and discussing how they can work together to address any identified areas requiring more focus.

Since we launched our new purpose, vision and values, the Tap In survey has included questions on how well people's experiences at work align with our values of being customer focused, doing the right thing and working as one team. The survey includes question sets on: diversity and inclusion, health and wellbeing, and health and safety too. These additional insights have been valuable for the Board, when tracking progress on these particular issues.

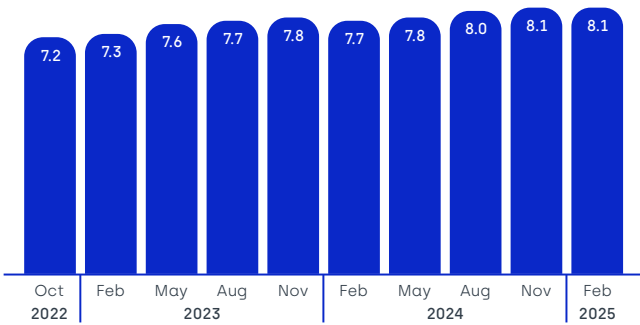
Activity 1

In 2024-25 we focused efforts to ensure that our people understood our strategy and direction. We launched the year with a series of company roadshows reaching over 850 people at 17 sessions. We shared our priorities and objectives for the year ahead and engaged in a live Q&A at each location. We wanted to lean into our unusual geography to unite our teams from across the business and we produced a history timeline to show how our purpose dated back over 170 years starting with Folkestone Water Company in 1848. Our people loved it and felt a great sense of passion and pride.

Following our all company roadshows we held a series of tailored directorate events to engage our teams further with our strategy so that they could celebrate our achievements and see clearly how they could contribute. Over the course of the year we improved our engagement score for communication of strategy to end up in the top 10% of energy and utility companies for this driver.

Company improvement over time

This quarter we have maintained our score of 8.1



Corporate governance report continued

Activity 2

Progress on equality, diversity and inclusion

In October 2023, we launched our 'Diverse voices, One team' strategy which explains how treating people fairly and with respect is the right thing to do, and that we will deliver the best experience for our customers when we recognise and value each other as individuals and work well together as one inclusive team.

In the first phase, we have focused on the following priorities:

- Narrowing the gender pay gap
- Embedding equality, diversity and inclusion in our talent acquisition and development
- Becoming Disability Confident and neuroinclusive
- Ensuring dignity at work and building an inclusive culture
- Improving our data collection and analysis.

The strategy is overseen by our EDI Committee which includes a Board member, directors and representatives from our inclusion networks – our women's network, ONE network focused on ethnicity and cultural heritage, disability and neurodiversity network, and Proud AW network.



Pic. Company roadshow with CEO, Keith Haslett

Among our successes have been:

- Our median gender pay gap has narrowed, our maternity returner rate has improved as we've improved our family leave policies (including providing paid shared parental leave), a gender gap we initially had in employee engagement has closed, female retention rates have improved, and the proportion of women in senior leadership at 34% now reflects the proportion of women in our workforce.

Case study

Winners of the Best Overall People Appreciation Strategy 2024

This year we were delighted to win the Best Overall People Appreciation Strategy at the Reward Gateway Edenred Appreciation Awards 2024.

This is their top award and a fantastic achievement that recognises our commitment to building an exceptional employee experience for everyone.

In the entry we shared the variety of activities we undertake to recognise all of our people and offer something for everyone. The judges were particularly impressed with how we have:

- recognised over 250 people through our new values awards since we launched in April
- sent over 5000 peer-to-peer thank you cards
- given out over 2000 on the spot rewards
- received over 12,500 views every month of our Wave articles featuring the great things you all do
- 900 people take part in our company live events

- given out 500 Body Coach app licences to help keep people fit
- held a company dodgeball event to raise money for charity
- increased our engagement score from 7.1 to 8.0 making us a top 25% utility
- moved from 8th to 2nd place in the water sector league table.

"We're delighted to have won this incredible award. I am hugely proud to be part of a fantastic team who through the work they do are making a massive impact on how it feels to work at Affinity Water but it's obviously much wider than just my team. I am very impressed with the breadth of work that takes place across all of our leadership teams and through peer-to-peer recognition to constantly review what we are doing and help us to lead the way in our people strategy."

Emma Davies
Director of People & Culture

- We have greater gender and ethnic diversity among our hires since we refreshed our careers site and employee value proposition to attract people from a wider talent pool, trained hiring managers on how to avoid bias, and moved to name-blind shortlisting.
- We introduced a new reasonable adjustment policy, rolled out Read&Write assistive software and made it available to all our employees and their families, and we have seen more employees sharing that they have a disability or neurodivergent condition in our diversity monitoring, which suggests greater trust and confidence that they will be supported.
- We have launched a new dignity at work policy, our employee networks have helped raise awareness of different experiences. Their events are inclusive and they have grown to almost 300 employees in total.
- Our diversity and inclusion scores have improved in our Tap In survey in the past two years. We are now in the top 25% of utilities companies for diversity and inclusion. On inclusiveness, we have seen our scores improve across all ethnicities but the biggest changes have been for employees of minority ethnic backgrounds.

How does our Lead the Way leadership behaviour framework align with our culture and strategy?

We have developed our Lead the Way leadership framework to provide a shared understanding of leadership and the behaviours that will set the tone and help create a positive and unified culture. The framework and the workshops that will support its implementation are based on evidence of what makes a high performing team, so will help deliver our vision to lead the way in the industry in AMP8. Over the next two-years, all managers will attend a series of practical workshops that will help them:

- improve leadership effectiveness for new and existing leaders
- better motivate and engage their teams
- be more valuing and inclusive of different approaches.

By order of the Board

Simon Pugsley
General Counsel and Company Secretary

10 July 2025

Leadership behaviours

Our Leadership behaviours set out how we work as managers to lead the way in our purpose to provide high-quality drinking water for our customers and take care of the environment, for diverse communities now and in the future.



Deliver results
Plan and execute for success



Lead Change
Initiate and direct change



Create a compelling vision
Determine a winning direction



Communicate with impact
Inspire and influence, with emotional intelligence



Foster teamwork
Build effective relationships through collaboration



Facilitate development
Nurture the growth of self and others



Lead from within
Be yourself and take the lead in your own life and career



Think in an agile way
Engage different thinking modes

Environment, Social and Governance Committee Report

“Our new ESG Committee is determined to set an ambitious ESG programme in AMP8 to be integral to the Affinity Water business plan.”

Chris Newsome
ESG Committee Chair



Committee members



Mike Brown Keith Haslett Adam Waddington

Member	Member since ¹	Meeting attendance	
Chris Newsome Chair		2	2
Keith Haslett Committee member		2	2
Ian Tyler Committee member	Resigned 17/02/2025	1	1
Adam Waddington Committee member		2	2
Trevor Didcock Committee member	Resigned 28/02/2025	2	2
Mike Brown Committee member	17/10/2024	1	1

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 2024

Key
○ Meetings attended ○ Possible meetings

Dear Stakeholder,

I am pleased to introduce this report, detailing the work of our new ESG Committee in the year 2024/25. The reporting functions involved now include Environment, Social and Governance performance.

At Affinity Water, we intend to use ESG to deliver 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.

During the final year of AMP7, we established terms of reference with Board approval and successfully tested the new function throughout the year. We feel confident that we have a clear framework for reporting our ESG performance moving into AMP8.

The Board has a strong and ambitious commitment to an ESG led approach and believes that this should be central to our work. This 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.

The Committee works in conjunction with other Board Committees; with the Audit Risk and Assurance Committee to ensure ESG risk is embedded as part of overall risk management process which includes data assurance and the Remuneration Committee, providing advice in relation to appropriate ESG-related components of the company's remuneration framework.

Now that the Committee is established, its first main task will be to set out Affinity's ambitions on ESG for the coming five-year period and in particular to identify the areas in which the company can take a leadership position, looking to set standards which the rest of the sector can follow.

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 (ie Net Zero targets) and adaptation ie for increased resilience to climate change impacts); - resource use and circular economy; and - natural capital; biodiversity; net gain, and changes to the environmental regulatory landscape.	- 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 maximise 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

Terms of Reference at a glance

- The Committee shall comprise at least four members, at least two of whom shall be independent Non-Executive Directors.
- Appointments to the Committee shall be made by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Committee.
- The Committee Chair shall be an independent Non-Executive Director.
- Only members of the Committee have the right to attend Committee meetings. The directors of relevant business areas may be invited to attend for all or part of any meeting of the Committee.
- The Committee meets quarterly and the focus of each meeting will be aligned with review and reporting for each financial year. The meeting agendas will include 1) ESG compliance review including performance in ESG areas, 2) agreement on scope of the ESG activities for the year to come and 3&4) discussion and agreement on opportunities to increase both public and shareholder value to enhance outcomes for customers, communities and natural environment.

Environment, Social and Governance Committee Report

continued

Overview

Strategic Report

Governance

Financials

ESG Risk 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 management of day-to-day operations. The ELT also carry out regular assessments of emerging risks, including horizon scanning and monitoring of early warning indicators and works with the ESG Committee to agree strategies for risk mitigation and maximisation of opportunities.

Integrating ESG into the risk framework enables us to identify where ESG related issues affect key risks (and opportunities). While reporting frameworks, such as TNFD and TCFD, already require us to report ESG risks in their own right, identifying where and how those risks, such as climate change or changing societal expectations, affect our core business operations enables us to plan effectively for the future and deliver greater value through our services.

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.

Adding value to environment and society

The value our company adds as a local business goes beyond core service provision and is broader than social impact on its own. The company contributes to the creation of several different types of value through their day-to-day activities. By providing water services, it acts as stewards of local environment leaving more water in sensitive areas such as chalk streams. It safeguards the health and wellbeing of individuals by wholesome water provision and contributes to regional economic growth through employment and procurement of goods.

The water it supplies is essential for sustainable economic growth and investment in the region.

Environmental performance 2024/25

The Committee has continued to oversee progress towards Net Zero and the actions we are taking to help us achieve our targets. Our overall carbon accounting capability has been increased and we have undertaken and reviewed a full Scope 3 greenhouse gas assessment to complete our understanding of the company carbon footprint. The areas where progress been made include:

Climate change mitigation - We are committed to Net Zero operational emissions by 2030, and total Net Zero by 2045. In 2024/25 the Scope 1 and 2 emissions associated with our distribution output volume were 146kg of CO₂e per ML of water produced, which reflects our operational carbon intensity. Our activities aimed at Net Zero transition included solar panel installations (currently on four sites) and potential roll out of additional company sites with solar arrays through working in partnership with external providers. During the year we completed construction on two new solar installations and began receiving electric vehicles progressing the transition of our fleet to electric.

Climate change adaptation - we carried out a full review of climate change transition risks and opportunities in line with the TCFD requirements, we updated our Climate Change Adaptation Report Round 4 and submitted it to DEFRA in December 2024. This assessment is contributing to the UK's Climate Change Risk Assessment ('CCRA') and the National Adaptation Programme ('NAP').

River Restoration - The programme is working to create resilient river systems by restoring rivers to a more natural state. It is this leading work that helps protecting water resources and water quality. We have been working with the Environment Agency, landowners, and other partners to support the Water Framework Directive objectives. We have achieved our AMP7 commitment to deliver 36 river restoration project units across six rivers which includes the River Beane, River Gade, River Mimram, River Misbourne, Upper River Lee, and River Ver, achieving a



Pic. Island Field River Restoration Project on River Colne - connecting river with its floodplain to improve flood resilience

total of 42 delivered units. In addition we have delivered river restoration projects on another seven rivers to restore chalk stream characteristics and enhance habitats in line with our wider Water Industry National Environment Program (WINEP) obligations (see picture above).

Biodiversity and natural capital - We continued to protect, conserve and enhance biodiversity through delivery of our AMP7 programmes. We established a natural capital account and have a programme of natural capital baselining for our landholdings with metrics using remote sensing technology and associated ground truthing. This forms part of our evidence base for leaving the environment in a measurably improved state, and ensuring we contribute towards being a nature positive organisation. We successfully completed all scheduled baseline surveys 2024/25 in preparation for the AMP8 new Biodiversity performance commitment, which has a target to enhance biodiversity by 36.6 units compared to the baseline across our landholdings. We plan to outperform this target where we can, to protect and enhance biodiversity. Natural capital management principles have been incorporated as part of the development of our WRMP and WINEP work, with the overarching aim of achieving nature positivity. Our PR24

Business Plan sets out our plan to improve the environment, while meeting legislative requirements in AMP8.

Catchment management - 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 2024 we worked to improve soil health, engaging with farmers to promote regenerative farming practices such as cover and companion crops.

Environment innovation projects - The programme enabled us to improve the knowledge and evidence of water use within our catchments to bring wider benefits in the future. We brought together sector experts, charities, community and environmental groups and other stakeholders to trial the delivery of a range of innovative multi-party projects linked to different environmental themes and water use behaviours. We will be replicating some of the successful approaches in AMP8.

Sustainability reduction - The programme is helping to leave more water in sensitive chalk stream catchments. We will have implemented 27.33ML/d abstraction reduction this financial year. In October 2024, we published Water Resources Management Plan 2024 (WRMP24), following approval by the DEFRA Secretary of State, Steve Reed. Our plan sets out how we will secure long-term water supply, adapt to climate challenges, and reduce environmental impacts, while ensuring affordability for our customers.

Social performance 2024/25

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

Our People

Our people are fundamental to helping us achieve our ambitions as a company. The ESG Committee works closely with the other Board Committees to monitor and oversee all aspects of employee engagement. We are pleased to see that our median gender pay gap narrowed again this year. This gap has decreased by 1.6 percentage points in 2024 compared to the previous year. We follow best practice and are publishing ethnicity pay gap data again this year. The median ethnicity pay gaps also narrowed in April 2024. We continued rolling out new learning and development programmes to help embed EDI in talent management and ensure hiring managers and newly appointed people managers fully understand their obligations. We also recognise the successes of our well-established EDI Committee and its four EDI networks as well as the ambition to become Disability Confident Level 2 in the next financial year. Greater detail on our company culture can be found on page 107 to 109 and further information on the work of our EDI Committee and its networks is included on page 129 of the Nomination Committee report.

Median Gender Pay Gap narrowed by

1.6%

River restoration project units

42

Sustainability Reductions

27.33 ML/d

Customer and community

Affordability - We continued to support customers with social tariffs - Water assistance payments, WaterSure, LIFT and payment plans.

Vulnerability - A draft 'Vulnerability strategy was published and will be incorporated together with new PSR standards in the Autumn for publication of the final draft by June 2025. We continued further development of our partnership with Small Acts of Kindness and started building new ones with additional social charities – Herts Vision Loss and Kidney Care to build deeper understanding of their needs and offer tailored support for customers in vulnerable circumstances.

Partnerships and public value - We initiated work to help us define the public value positioning of Affinity Water with ambition to be an exemplar of how a privately funded provider of an essential public service should behave.

Charitable donations - We continued our work with Hertfordshire Community Foundation to help allocate grant money in support of local social need.

Governance performance 2024/25

We are committed to promoting and maintaining the highest standards of ethics and conduct and 'do the right thing'. This year we continued our work to maintain and enhance our existing internal processes around data governance and training. In 2024/25 we improved our document control system by introducing changes to the functionality of current system Athena and development of a statistics dashboard to support authors and senior leadership with managing their documents. 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 reviewed the framework and implementation of new policies and processes bringing us further in-line with Information Commissioner's Office guidance. A new training module to improve awareness and reduce risk of modern slavery within the business and supply chain was introduced.



Pic. Affinity Water's Executive Team volunteering in with Small Acts of Kindness

Environment, Social and Governance Committee Report

continued

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 we introduced a Supplier Code of Ethics as a new requirement for our main suppliers to adopt it also became a part of requirement in the tender process.

Our future ambitions

Our ESG Committee is determined to set an ambitious ESG programme in AMP8 to be integral to the Affinity Water business plan. This will ensure strategic focus and direction is given to ESG matters across the business ensuring we monitor and minimise ESG 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 ESG related strategies and policies that address all the ESG aspects to deliver against the company's purpose and objectives. A further focus is to advise on opportunities to increase both public and shareholder value to enhance outcomes for customers, communities and natural environment. With regards to the Committee's remit, its responsibility is two-fold. First, to oversee compliance and secondly enhancement.

Becoming nature positive

In AMP8 we have an ambitious plan to improve the ecology of our sites and use our land for maximum environmental gain. We have made significant progress in baselining

our land so that we can identify appropriate measures to improve biodiversity and environmental value. As part of our approach to multi-capitals decision making and to support the AMP8 biodiversity performance commitment, we have completed a project which uses satellite imagery and remote sensing to identify and map specific habitat types which exist on our land holdings. From this mapping, a natural capital account of our estate has been developed using the Environment Agency's Natural Capital Register and Account Tool ('NCRAT') methodology. The natural capital account looks to quantify a variety of societal benefits such as climate change mitigation, water quality, air quality, recreation and more. The use of a combination of different methodologies was a truly innovative approach in the UK water sector. By replacing manual, labour-intensive data collection with automated, AI-driven analysis, we were able to rapidly scale our natural capital assessments across our landholdings. The platform's high-resolution data and advanced analytics, combined with Atkins Réalis' interpretation and guidance, facilitated targeted ground-truthing surveys, allowed to focus on areas of strategic significance, thus optimising resources and improving the overall accuracy of the data.

The data has been supporting the creation of a baseline for our biodiversity performance commitment with our in house Ecologists checking the outputs and also undertaking local condition surveys to complete the baseline assessment.

In addition, we also plan to deliver an ambitious programme of nature-based solutions in our catchments

to enable quantification of multiple benefits. These interventions aim to protect water quality but 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. Furthermore, these nature-based solutions will enhance wellbeing for communities by supporting the creation of an improved landscape for everyone to enjoy and benefit from. To implement this vision, we seek to improve our approach to natural capital in AMP8 with the following aims:

- Evolving our approach to natural capital evaluation through delivery of our Water Industry National Environmental Programme (WINEP), utilising data from the implementation of Catchment & Nature-based Solutions and our Biodiversity programme
- Enhancing our monitoring capabilities by implementing and monitoring the effectiveness of nature based solution projects such as river restoration and wider land use change
- Implementation of pollinator management strategy and delivering more value on the ground
- Working 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
- Providing more amenity value through enhancing access and recreational provisions on our sites where operations allow
- Utilising on a voluntary basis ESG reporting frameworks such as TNFD and enhancing nature related disclosures by integrating risk and opportunity thinking across organisation.

Achieving Net Zero by 2050

Understanding and monitoring embedded carbon from our operations will incentivise us to reduce the carbon impact of our capital works and will support the mitigation of the impact on the environment by reducing carbon emissions from the delivery of capital projects. We will look to align carbon reduction with PAS 2080, reviewing options to improve our levels with the 5-client carbon commitment. Other initiatives will include:

- Carbon insetting – our ambition is to improve the method for verification of carbon benefits from nature based solutions. We will aim to reduce emissions by using nature based solutions as per the Ofwat methodology, which we expect to account and verify from catchment management practices such as the funding of cover crops.
- Improve circularity of resources where appropriate. For example utilise more regenerated Granular Activated Carbon ('GAC') in favour of virgin equivalent.

Work to eliminate water poverty and provide inclusive customer service.

We will make bills affordable and ensure our service is inclusive for all. We have an ambitious affordability and vulnerability strategy to underpin these objectives in AMP8 to:

Provide tools for customers to reduce bills and manage their consumption:

- Further support customers on social tariff fixing household pipe leakage
- Redesign our bill format to make it simpler to understand
- Install smart meters and provide digital method for review of water usage to help our customers be more in control of their usage

Change our tariffs to deliver fairer bills by:

- Increasing our social tariff by 18,000 to 153k customers by 2030 ensuring no customer receives less support as a result
- Continuing with tariff trials to help make bills fairer

Ensure our bills in 2025-2030 are the lowest they can be:

- Challenge the costs we have used to develop our investment programme to be as efficient as possible

Help households with the cost of living by:

- Enhancing our benefits maximisation service to make sure all eligible benefits are claimed (using best practice tools)
- Using our own external data, proactively identifying customer in or at risk of experiencing financial pressure

Taking the lead of Water UK vulnerability group.

- Improve focus towards our customers' diverse needs and experiences, including those struggling to pay their bills or access essential services. Implement vulnerability strategy and build partnership with social charities in the local community to provide a service more tailored to what customers need and expect.

Investing in community and future skills

Our ambition is to develop an industry-leading Early Careers Strategy to attract the 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 unable successful business plan delivery in AMP8.

Approval

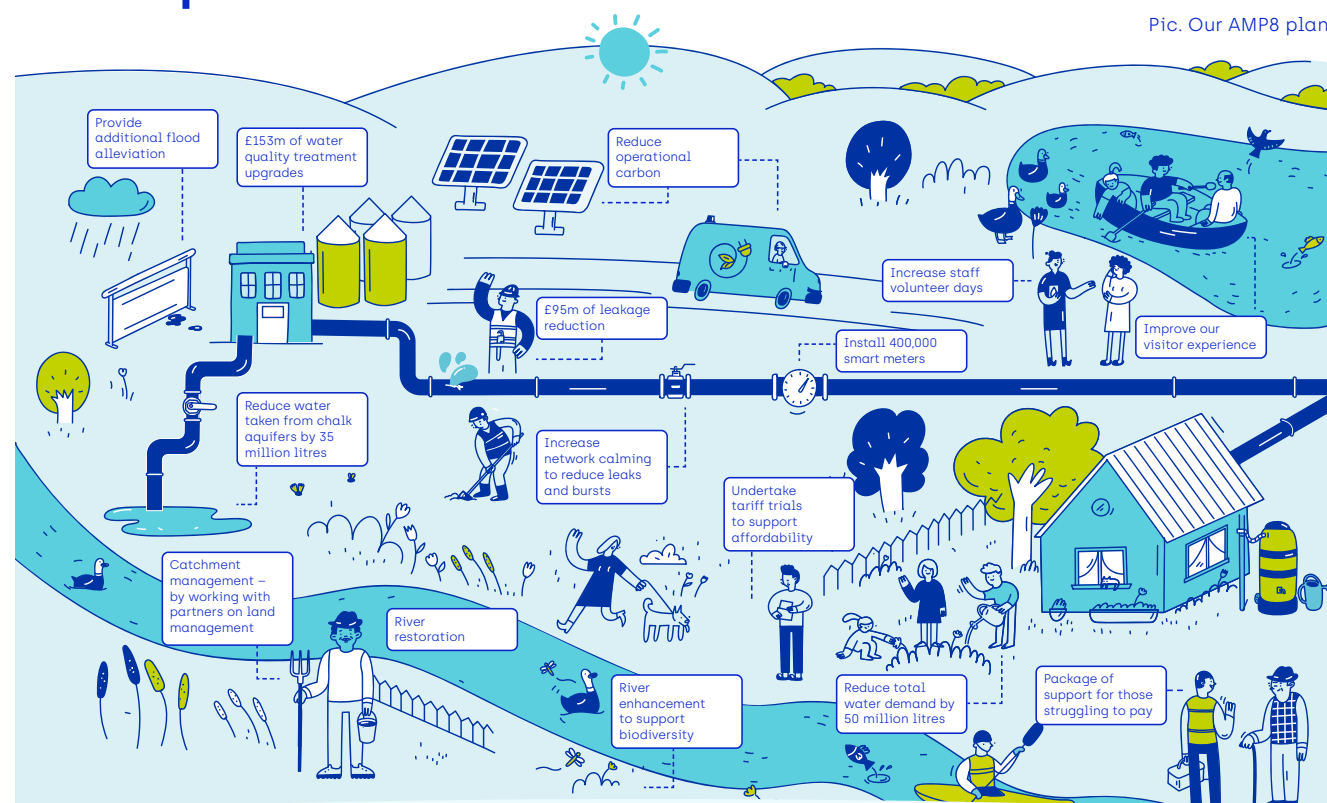
On behalf of the ESG Committee

Chris Newsome
Chair of the ESG Committee

10 July 2025

Our plan 2025 - 2030

Pic. Our AMP8 plans



Audit, Risk and Assurance Committee Report



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."

Justin Read
Audit, Risk and Assurance Committee Chair



Dear Stakeholder,

I am pleased to present the report of the Audit, Risk and Assurance Committee which sets out the role of the Committee and gives stakeholders a clear insight into the valuable work it has undertaken during the year.

The Audit, Risk and Assurance Committee is responsible for assisting the Board in discharging its oversight responsibilities for the integrity of the company's financial statements, and the assessment of the effectiveness of the system of internal control and risk management, and reports to the Board on how the Committee discharges its responsibilities in accordance with its Terms of Reference (which are available on the governance pages of our website: affinitywater.co.uk/governance-assurance).

As Chair of the Committee, I maintain regular dialogue with my fellow Committee members, the CFO, the Company Secretary and Head of Internal Audit and Risk as well as having responsibility for overseeing the relationship with our external Auditor, PricewaterhouseCoopers LLP ('PwC'), including assessment of its ongoing objectivity, and overseeing the assurance of regulatory returns to Ofwat.

Our work cannot provide absolute assurance that the company's risk management and internal control systems are operating effectively. Some areas of challenge that need improvement were identified in the year which have either been addressed by management or are in the process of being addressed, with oversight from the Committee. Nevertheless, we are satisfied that the control and compliance culture and processes of the company are proportionate, which helps to provide reasonable assurance that the financial statements are free from material error and/or misstatement.

The Committee is further satisfied that the 2024/25 Annual Report and Financial Statements, taken as a whole, provide a fair, balanced, and understandable assessment of the company's position; and the information necessary for stakeholders to assess the company's performance, business model and strategy.

The Audit, Risk and Assurance Committee is key to ensuring that the organisation has robust and effective processes relating to financial reporting, internal controls, and risk management. The Committee is also the main oversight body for the internal and external Auditor. The Committee is central to the company's governance structure and ensures the interests of customers, shareholders and other stakeholders are protected, and that responsible business practices are adhered to.

The Committee's Terms of Reference are structured to ensure it achieves compliance with governance best practice, and are reviewed, annually, to ensure the effectiveness of the Committee.

Committee members



Chris Newsome Mike Osborne

Member	Meeting attendance	
Justin Read Chair	4	4
Chris Newsome Committee member	2	2
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

Terms of Reference at a glance

The Committee shall comprise at least three members and at least two should be independent Non-Executive Directors.

While Committee members are required to attend Committee meetings, other individuals such as the CEO and CFO, Board Chair, the Head of Internal Audit and Risk, Insurance Manager and Ethics and Compliance Manager, the Group Financial Controller and the external Auditors are often invited to attend as appropriate to the discussion matter.

The Company Secretary or their nominee attends every meeting.

Audit, Risk and Assurance Committee meetings are scheduled to occur at least three times during the year.

The Committee Chair reports to the Board on its proceedings and recommendations after each meeting on all matters within its duties and responsibilities.

Responsibilities of the Committee

The Committee considers matters identified by the external Auditor in its report to the Committee. It updates the Board on how it has discharged its responsibilities through a report from the Committee Chair at each Board meeting following any Audit, Risk and Assurance Committee meeting. When reporting to the Board, the Committee Chair identifies any matters it considers where action or improvement is needed and makes recommendations as to the steps to be taken. The Audit, Risk and Assurance Committee also has a role in ensuring that shareholder interests are properly protected in relation to financial reporting and internal control. In carrying out this role, the Audit, Risk and Assurance Committee considers the clarity of its reporting and prepares an additional report describing it discharges its responsibilities. The Chair of the Committee attends the AGM to answer questions on the separate section of the Annual Report and Financial Statements describing the Committee's activities and matters within the scope of the Committee's responsibilities.

Overview of the actions taken by the Audit, Risk and Assurance Committee to discharge its duties

The significant matters considered by the Committee in relation to the 2024/25 financial statements were consistent with those identified by the external Auditor in its report on pages 166 to 173. The Committee has an extensive agenda of business, which it deals with in conjunction with senior management, the external Auditor, and the Internal Audit function. During the year, the Committee met four times. Within the agenda of these meetings, the Committee met with internal and external Auditors without management being present.

The table below presents a summary of business considered during 2024/25.

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 - Agreed the fees to be paid to PwC for its review of the September 2024 half-year report and its audit of the March 2025 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 FY25/26 - 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 - Monitored implementation of the programme of improvement actions arising from External Quality Assessment ['EQA'] report carried out last year in respect of the Internal Audit function - Approved Internal Audit Charter revised in line with new Global Internal Audit Standards

OverviewStrategic ReportGovernanceFinancials

Audit, Risk and Assurance Committee Report

continued

Financial and other reporting	- Reviewed the September 2024 half-year financial results and the March 2025 Annual Report and Financial Statements - Reviewed the March 2025 regulatory Annual Performance Report to ensure that the information met Ofwat's AMP7 reporting requirements - Advised the Board on whether the Annual Report and Financial Statements, taken as a whole, were fair, balanced, and understandable, and provided the information necessary for shareholders to assess the company's position and performance, business model and strategy - Reviewed the assessment of the company's long-term prospects, viability statement and stress test scenarios, including the impact of economic changes on the company's results and forecasts and the impact on going concern assumptions - Challenged the company's internal capitalisation policy, which was updated and approved including a change in accounting policy relating to developer services activity - Reviewed and approved the company's Corporate Criminal Offences ['CCO'] policy which sets out AWL's zero tolerance to tax evasion and facilitation of tax evasion. - Considered impact of the new 2024 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.
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. It was noted that, while overall position is positive, areas of improvement remain, which are in hand - Reviewed compliance certificates required under the company's debt facilities - Received presentations across the year on: - Tax matters and risks; - FRC changes to the corporate governance code presented by KPMG; - The company's insurance programme, renewal and increasing premiums; 2024/25 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 2024/25; - The continuation of the company's contract with its Reporter, an external assurance provider who provides assurance on engineering and technical data; - A review of the Whole Business Securitisation Compliance Certificates; - An update on the progress of the Resilience Action Plan; - Gifts and hospitality activity; - Governance arrangements for compliance work carried out by the Opportunity and Oversight Committee, an internal working group overseeing compliance with competition law; - The company's whistleblowing arrangements and any associated investigations that are required. All significant whistleblowing matters are subsequently reported to the Board via updates from the Committee; - The 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; - Updates UK Corporate Governance Code (2024) and the Department for Business and Trade's reform proposals on 'Restoring Trust in Audit and Corporate Governance,' and the impact on the company; - The requirements of Task Force on Climate-related Financial Disclosures ['TCFD'] and EU taxonomy alignment assurance; - A review on the Environmental, Social and Governance ['ESG'] reporting disclosure; and - A review of security control environment and cyber security policy. - Approved the company's non-audit fee policy

Fair, balanced, and understandable

The Committee reviewed the 2024/25 Annual Report and Financial Statements to ensure that they are fair, balanced and understandable and provide sufficient information to enable stakeholders to assess the company's position, performance, business model and strategy.

Whistleblowing

The Committee continues to receive updates on whistleblowing incidents reported during the year. All whistleblowing reports were treated in the strictest confidence and were handled in accordance with the company's Whistleblowing Policy. If, and when, it was appropriate to do so, specific matters were submitted to the Chair of the Audit, Risk and Assurance Committee to ensure senior, independent consideration and review, while a more general whistleblowing update was included within the Ethics and Compliance report and presented at each Committee meeting. The Ethics and Compliance team have led investigations into the issues and concerns raised in the last year and continue to draw recommendations and help to implement operational and policy improvements in response to the investigation findings as required.

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 2019 Code, the Board takes responsible for reviewing the effectiveness of these control systems, taking the advice of the Committee in areas including financial, operational and compliance controls and risk management.

The company's systems of internal control are designed to manage the risk of failure to achieve business objectives (although such risk cannot be completely eliminated), and provide reasonable, not absolute, assurance against material misstatement or loss.

The main features of the company's internal control and risk management systems, in relation to the financial reporting process, include:

- a structured review process for year-end financial reporting, including review by the Audit, Risk and Assurance Committee early in the drafting process;
- recruitment, training, and development of appropriately qualified and experienced financial reporting personnel;
- formalised monthly close control procedures, including journal approval, validation and balance sheet reconciliations; and
- preparation of monthly management accounts on the same basis of accounting as year-end financial reporting.

Particular features of the systems of risk management, planning and internal controls include:

- a comprehensive suite of internal control procedures across both operational and financial matters,

supported by segregation of duty matrices and detailed delegated levels of authority;

- an Internal Audit function, the head of which reports to Audit, Risk and Assurance Committee ['ARAC'], 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 new 2024 Code which requires the Board to actively monitor as well as review the effectiveness of these control systems. Acknowledging that the new requirement will be applicable from accounting periods starting 1 January 2026, the company has two years to implement before signing off on the effectiveness of controls, however work has commenced 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;

OverviewStrategic ReportGovernanceFinancials

Audit, Risk and Assurance Committee Report

continued

- 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 Audit, Risk and Assurance Committee in relation to the financial statements

The Committee considered the appropriateness of the company's accounting policies, including the impact of climate change and the increased cost of living currently impacting our customers on the accounting disclosures.

We discussed the critical accounting judgements and key sources of estimation for the relevant aspects of the financial statements and concluded, based on the information available, that the estimates, judgements, and assumptions used were reasonable and that they had been used appropriately in applying the company's accounting policies. The company's viability statement, including information on the company's approach to preparing it, can be found on page 58.

In relation to the company's existing accounting policies, and the following principal areas of judgements and estimates, for all matters described below, the Committee concluded that the treatment adopted in the financial statements was appropriate.

Issue	How the issue was addressed by the Committee
Revenue recognition	The Committee reviewed the methodology for the recognition of revenue, specifically the accuracy of the measured income accrual, and concluded that the approach and conclusions reached were appropriate.
Policy for the loss allowance of trade receivables	The Committee reviewed the policy for providing for the impairment of trade receivables, including considering any significant economic changes that may impact its credit loss model and future credit losses, as well as looking ahead regarding the increased cost of living currently impacting our customers, and concluded that the approach taken was appropriate.
Capitalisation policy	The Committee reviewed the processes and policies to distinguish between maintenance and enhancement costs, and it was concluded that these would result in cost capitalisation in line with the company's updated policy and applicable accounting standards.
Defined benefit pension assumptions	The Committee reviewed the key assumptions used in calculating the defined benefit pension surplus 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.

Issue	How the issue was addressed by the Committee
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, alongside the planned £150 million equity injection by 31 March 2026. 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.
Capitalisation of borrowing costs [IAS 23]	The Committee reviewed and approved an amendment to accounting for borrowing costs in accordance with International Accounting Standard [IAS] 23: 'Borrowing costs' [IAS 23]. Management performed an assessment of qualifying assets from 1 April 2016, to determine the borrowing costs to be recognised under International Financial Reporting Standards [IFRS] and the impact on prior years.
Sale and leaseback transaction	The committee reviewed the accounting for the sale and leaseback transaction in relation to the Hatfield Office. The company acquired its head office building and entered into a sale and leaseback arrangement, allowing it to reacquire the property at the end of the lease term. The transaction has been treated as a financing arrangement, with an associated financial liability and capital contribution for qualifying expenditure.
Refinancing	The Committee reviewed the accounting treatment for the company's refinancing activities, including the issuance of a new £350 million green bond and the early repayment of a portion of an existing loan to ensure they had been recognised in compliance with relevant accounting standards.

We challenged management on the following areas:

Area of challenge	Outcome of this challenge
Key risks were reviewed in detail for strategic resource options and direct procurement for customers and risk management and challenged as part of deep dive exercises	The Committee satisfied itself that key risks had been adequately identified, assessed and mitigated in those areas.
Scope of the internal audit plan for 2024/25 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 2024/25 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.

Overview

Strategic Report

Governance

Financials

Audit, Risk and Assurance Committee Report

continued

Area of challenge	Outcome of this challenge
Refinement of Principal Risks	This year we have conducted a comprehensive review of our principal risks to ensure that they align to our key business processes and reflect our strategic priorities and regulatory obligations for AMP8. This has resulted in some aggregation and disaggregation of some of the risks. Overall, we have reduced the number of risks from 16 to 12. There are four new risks which have been disaggregated from our previous risks. Of the risks which last year we assessed as critical: [1] Supply Chain risk is now subsumed within risk 11 - Capital Projects Underdelivery, which is the main area in which supply chain risk would manifest itself; [2] Data Compromise risk remains intact, with an ever-increasing emphasis on cyber risk; [3] Adverse Regulatory Change has been combined with legal obligations to form risk 8 – Fail to meet regulatory and legal obligations, as we believe the two areas are inextricably linked; and [4] Unsatisfactory PR24 has been removed from the list given our largely satisfactory final determination from Ofwat. Details can be found on page 49.
Alignment of new Internal Audit Charter with the Chartered Institute of Internal Auditors ('IIA') template	The Committee assured itself that AWL's current ways of working were already compliant with the new IIA standards
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
- Accuracy of the measured income accrual - Adequacy of the loss allowance of trade receivables - Management override of controls - Going concern basis, including viability statement - Assessment of cost capitalisation - Assessment of pension assumptions	No material issues were noted during the interim review or year-end audit. See the audit opinion on page 166 onwards for more details.

PwC were not specifically asked by the Audit, Risk and Assurance Committee to look at any particular areas and undertook their work in line with required auditing standards.

External audit

PwC was appointed as external Auditor in 2013/14 following a competitive tendering exercise at that time. 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:

- 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 £814,000 in the year to 31 March 2025 (2024: £805,000) 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 187 for a breakdown of fees in the current and prior year. We also incurred expenditure of £85,000 with PwC (2024: £136,400) on other non-audit services in the current year relating to the issuance of a comfort letter on the bond prospectus and access to technical materials (PR24 risk assurance procedure services and technical materials in the prior year).

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 2025. Note 2.3 to the financial statements includes disclosure of the Auditor's remuneration for the year, including an analysis of audit services, audit-related services and other non-audit services under those headings prescribed by law.

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 2024/25 amongst others, planned audits were carried out in the following particularly important areas:

- Expense claims
- Customer vulnerability
- Document control and management
- Revenue, billing and collections
- Health and safety
- Environment and biodiversity

In light of the new global standards published in January 2024 by the IIA, the IA team reviewed and updated its

Internal Audit Charter. Other activities are ongoing to bring the function completely in line with the new standards.

Plans and objectives for 2025/26

During 2025/26, the Committee plans to achieve the following:

- Focus on systemic risks that create vulnerabilities in many parts of the organisation simultaneously and ensure risk assessment and risk management efforts provide the Board with clear oversight of such risks;
- Ensure that governance, risk management and control efforts are appropriately coupled to strategic risks;
- Review the action plans and timetable for the 2025/26 statutory and regulatory financial statements, including going concern, viability, narrative disclosures and regulatory reporting requirements;
- Check that the company's risk appetite is up to date to provide clarity in rapid strategic decision making;
- Monitor progress made against the 2025/26 internal audit plan;
- Ensure the Internal Audit function spends as much time as necessary on emerging strategic and systemic risk areas;
- Review the implementation of new corporate governance requirements following publication of the UK Corporate Governance Code in January 2024.
- Incorporate Environmental, Social, and Governance risks 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 will consider management's recommendations in relation to risk management and internal control as set out in provision 29 in the 2024 code published by the FRC.

The company's audit has not been reviewed by the FRC's Audit Quality Review team during 2024/25.

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

10 July 2025

Nomination Committee Report

“This year, with the successful appointment of a new Chair and CFO, the Nomination Committee supported a smooth, effective and efficient induction programme to support transition into role.”

Mike Brown CBE MVO
Company Chair



One of the other key focus areas for the Committee this year remains the company's performance and progression within the equality, diversity and inclusion arena. We have set out our EDI activities and the progress against our EDI Strategy that was launched at the end of 2023 on page 129.

I wish to take the opportunity to thank my fellow Committee members for their support as I commenced my role as Committee Chair and look forward to continued open discussions and valued contributions in support of our work together.

Mike Brown
Nomination Committee Chair

10 July 2025

Terms of Reference at a glance

- The Committee comprises all Non-Executive Directors and satisfies the code requirements that 'a majority of members of the Nomination Committee should be independent Non-Executive Directors'.
- Only Committee members attend Committee meetings; however, other individuals, such as the CEO, CFO, and Director of People and Culture, may be invited to attend from time to time, as appropriate.
- The Company Secretary or their nominee attends every meeting.
- Nomination Committee meetings are scheduled to occur at least three times during the year.
- The Committee Chair reports to the Board on its proceedings and recommendations after each meeting on all matters within its duties and responsibilities.

Committee members



Roxana Tataru



Justin Read



Mike Osborne



Chris Newsome



Adam Waddington



Shelley Malton

Member	Member since ¹	Meeting attendance
Ian Tyler Chair	14/10/2024	33
Roxana Tataru Committee member		56
Justin Read Committee member		55
Mike Osborne Committee member		66
Chris Newsome Committee member		66
Adam Waddington Committee member		66
Shelley Malton Committee member		56
Trevor Didcock Committee member	Resigned 28/02/2025	56

The composition of the Committee met Ofwat's BLTG principles for there to be a majority of independent directors, as well as the requirements of the Code, for the financial year.

¹ if after 1 April 2024

Key

○ Meetings attended ○ Possible meetings

Dear Stakeholder

As new Committee Chair, I am pleased to set out the valuable work of the Nomination Committee, the matters considered and steps taken, over the past twelve months.

Acknowledging the significance of the two roles to the company, much of the Committee's work this year has been dedicated to the successful recruitment of the Chair of the Board and the CFO with a number of additional meetings scheduled to effectively oversee the process. The Committee concluded this project with the support of executive search consultants Korn Ferry with regard to the Chair role and Odgers Berndtson for the role of CFO. As set out earlier in the Corporate Governance Report, I joined the Board as Chair Designate on 14 October 2024 and subsequently took over as Chair on 17 February 2025 when Ian stepped down. Martin Roughead resigned from his role as CFO on 4 October 2024 and we were pleased to welcome Adam Stephens at the start of the year. Other changes to the Board included Roxana returning to the Board in June 2024 with her alternate, Andrew Cox, simultaneously stepping down. The Committee oversaw the planned retirement of Trevor Didcock, Board member, former Remuneration Chair and Senior Independent Director and at the end of February we said farewell to Trevor. He has been a highly valued member of the Board for nine years. On behalf of the Committee, I would like to sincerely thank both Trevor and Ian for their significant dedication and impactful contributions during their respective tenures.

In light of the recent changes to the composition of the Board, the Nomination Committee has been focused on the preparation and delivery of a revised training and induction programme, which has been successfully rolled out to myself and Adam over the past few months ensuring a smooth transition. More details on the induction programme can be found on page 127.

The Committee has also spent time during the year considering succession planning and the training and development programme to ensure that the Board and senior management maintain the appropriate skill sets, experience and capabilities to fulfil their roles. Part of this consideration saw Joe Hall invited to become a member of the ELT this year as new Director of Health, Safety and Estates.

Main responsibilities

Reviewing Board performance	The Committee assesses Board performance, paying specific attention to the structure, size and composition of the Board, including skills, independence, knowledge, ethnicity, and diversity. It continually assesses the skills, experience, and capabilities required on the Board, taking account of the company's strategic priorities and the future challenges affecting the business. Recommendations to the Board regarding the reappointment of any Non-Executive Director, are made annually, having considered the time required for the role and identifying their continued contribution to the Board, having regard to their key skills and expertise.
Recommending appointments to the Board and its Committees	The Committee makes recommendations concerning the membership of Board Committees and the appointment of the Senior Independent Director ('SID'), and the Director for Employee Engagement. It leads the process for appointments, considering, and recommending to the Board persons who are appropriate for appointment as Executive and Non-Executive Directors to maintain an appropriate mix of skills and experience within the company and on the Board, considering future challenges facing the company. In identifying suitable candidates, using open advertising or external advisors, the Committee considers candidates from a wide range of backgrounds, on merit and against objective criteria with due regard to the benefits of diversity on the Board, taking care that appointees have sufficient time available to devote to the position.
Overseeing Board and company diversity	The Committee works with the relevant areas of the business to take an active role in setting, monitoring, and meeting diversity objectives and strategies for the company and oversees the Equality, Diversity, and Inclusion Policy.
Ensuring succession planning	The Committee ensures plans are in place for orderly succession to both Board and senior management positions and overseeing the development of a diverse pipeline for succession. In addition, it oversees the induction, training, and the continuing professional development of Board members.

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 skills - Reviewed the Board's composition and size as well as each of the Committees, in the short, medium, and long term and evaluated its compliance to the UK Governance Code and AWL's own Governance Code as well as confirmed with Ofwat that the current BLTG Principles requirements are met - Assessed Board member external appointment commitments to ensure the members of the Board had adequate time available for their roles. - Conducted an internal Board Effectiveness Review that was presented to the Board in May 2025 and looked to agree an action plan where appropriate
Recommending appointments to the Board	- Led the process for the successful appointment of the Chair of the Board engaging Korn Ferry in the recruitment process. Korn Ferry is a signatory to the Voluntary Code of Conduct for Executive Search Firms and does not provide any services to Affinity Water other than Board-level recruitment - Led the process for the successful appointment of the new CFO engaging Odgers Berndtson ('Odgers') in the recruitment process. Odgers is a signatory to the Voluntary Code of Conduct for Executive Search Firms and does not provide any services to Affinity Water other than Board-level recruitment - Approved the appointment of Justin Read as SID - Approved the appointment of new General Counsel and Company Secretary
Overseeing Board and company diversity	- Reviewed and approved for recommendation to the Board an updated Board Diversity, Inclusion and Equality of Opportunity Policy, a policy that underpins the Board's commitment to diversity considerations when appointing members to the Board - Reviewed and approved the creation of a unified Commitment to Equality, Diversity and Inclusion and Dignity at Work commitment, a company policy that strives to promote equal opportunity to everyone, creating an open and inclusive workforce where people feel valued - Reviewed metrics of the AW performance on EDI presented to the Committee by the Head of Culture and EDI and supported the EDI Committee in their strategy to: - take positive action to address our gender pay gap; - 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; - integrate EDI data collection with the new recruitment system and learning and development data; and - understand how to build on our inclusive and supportive culture using metrics to action plan and monitor performance.
Ensuring succession planning	- Reviewed succession plans for independent Non-Executive and Executive Directors in tandem with the review of the Board skills matrix to promote synergy - Reviewed succession plans for the Company Secretary and senior management

Appointments to the Board

All Board appointments are subject to a formal, rigorous, and transparent procedure and the Board and Nomination Committee maintain an effective succession plan for all Board and senior management roles. We act in accordance with Ofwat's guidelines regarding appointments and succession planning as well as the Code requirement that every appointment should be made on merit against objective criteria, which protects against discrimination for those with protected characteristics within the meaning of the Equalities Act 2010.

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 99, 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 range of skills and experience, considering any directorship changes.

Board succession – Non-Executive

The Committee is informed of all directorship changes. Roxana Tataru returned from a period of maternity leave on 10 June 2024 and, Andrew Cox, who was appointed as her alternate from 15 November stepped down as of same date.

The Committee led the search to replace Ian Tyler, as Chair of the Board. The Committee concluded this search with the support of executive search consultants Korn Ferry, and appointed Mike Brown to the Board as Chair Designate on 14 October 2024. Ian formally stepped down on 17 February upon which Mike took over role as Board Chair.

Justin Read was appointed as SID on 1 September 2024 following Trevor Didcock stepping down from the role.

Board succession – Executive

The Committee led the search for a new CFO, to replace Martin Roughead who stepped down on 4 October 2024.

With the support of executive search consultants Odgers, Adam Stephens joined us as CFO on 1 January 2025.

Company Secretary succession

Patrick Makoni stepped down as Group Company Secretary on 30 March 2025. Simon Pugsley was appointed on 1 April 2025 in the new role of General Counsel and Company Secretary.

Senior Management succession

The company welcomed Joe Hall as the newly created ELT role of Director of Health, Safety and Estates in December 2024, promoted from his previous role as Head of Health, Safety and Wellbeing. Recruitment is currently underway following Dean Garvey-North stepping down from his role as Director of Technology and Transformation in April 2025, with Jonathan Payne acting as interim replacement until the permanent role is assigned.

Appointment of Chair and CFO in FY24/25

All incoming directors are guided through a comprehensive induction process to familiarise them with the business, the strategy, the priorities, the culture and the ambitions of Affinity Water. This year, with the successful appointment of a new Chair and CFO, it was imperative that their induction and transition into role was smooth, effective and impactful. The full recruitment and induction process that has been undertaken in respect of each of these key roles is set out below.

1.Search and Selection	In order to commence the selection of a search firm, an analysis of current Board skills and experience as well as current Board objectives and priorities was conducted by the Nomination Committee led by the SID with valued input from the Director of People and Culture. Together a role recruitment brief was approved. The relevant appointed executive search firm conducted a market review of suitable candidates and presented a long list to Nomination Committee. After meeting to discuss and consider, a preferred short list was agreed by the Committee and more detailed discussions were undertaken with those individuals by the search firm to build up detailed profiles of each suitable candidate.
2. Interview	First stage interviews took place with each candidate on the preferred short list conducted by two panel groups purposely comprising a mixture of Board members. Interviews were intentionally structured to ensure that each panel covered key areas of the role specification. Second round interviews were arranged with the shareholder-nominated Non-Executive Directors as well as a follow up meeting with the CEO. Detailed feedback sessions were held between the Board members and a decision was made to identify the most suitable candidate for the role.
3. Ofwat Pre-Appointment Meeting	All Non-Executive Directors (including the Chair) who have been nominated for appointment to the Board are required to attend a pre-appointment meeting with Ofwat. This meeting allows nominated directors to get an understanding of Ofwat's expectations for the role of Non-Executive Directors of a regulated company, and any other issues that Ofwat considers appropriate. It also provides an opportunity to raise any questions to Ofwat ahead of their appointment. The new Chair met with David Black ahead of formal appointment.
4. Conflicts of Interest	As with all newly appointed directors, Mike and Adam were asked to submit a related parties form whereby a conflict search is conducted upon appointment. This aids AWL in identifying and documenting directors' interests and transactions with related parties, as well as managing potential conflicts of interest relevant to Board activities. It also acts as assurance that the incoming directors are able to commit the necessary time to the new role.

Nomination Committee Report

continued

5. Induction Programme

A bespoke induction programme is developed for each incoming director tailored to their previous industry experience. The proposed programme for the Chair and CFO included:	
Business and strategy	- Briefings from the outgoing Chair, and CEO on company background, operational performance and targets as well as strategic plans - Site visits accompanied by our Director of Customer Delivery to afford a chance to see operations first hand and meet operational employees - One-to-one meetings with each ELT member including overview presentations on each of their subject areas - Presentation from shareholder-nominated Non-Executive Directors to understand the shareholder perspective, structure and long-term vision
Governance	- Meeting with the Company Secretary to discuss the governance of the company, the Board and Committee structure, and procedures as well as identify any bespoke training needs - One-to-one meetings with the Chairs of each Committee to discuss their remit, delegation of responsibilities and forward agenda - Presentations on the regulatory framework and company policies
Company culture	Presentations from our Director for Employee Engagement and Head of Culture and EDI to introduce the current culture, strategy and ambitions for the next AMP
Stakeholder engagement	- Invitations to meet with regulators and other stakeholders such as the Environment Agency, Defra and Water UK - Briefings from our Head of Customer Experience to appreciate the customer view

Training and continuing professional development

Training remains paramount to ensuring the Board stays abreast of all key developments within the business and the industry as a whole; therefore, our Board members receive updates on relevant issues, including legislative, regulatory, and reporting matters, to help support their understanding and knowledge of the water industry and its regulatory environment.

Non-Executive Directors are invited to participate in industry events, including regular Ofwat events for Non-Executive Directors, and are aware of their commitment to keep themselves properly briefed and informed to deepen their understanding of the business. The Board's training programme this year included a tax presentation on Corporate Criminal Offences and in the coming months, Board members will join the ELT on cultural change initiatives and training sessions. The Nomination Committee are responsible for overseeing this training programme and the continuing professional development of Board members.

Equality, Diversity and Inclusion training

The Board remain committed to continuing to build their knowledge and understanding around equality, diversity and inclusion and have access to a number of online training courses to help them take steps to reduce the likelihood that bias will impact their decisions.

Equality, diversity, and inclusion

Affinity Water is committed to equality, diversity, and inclusion ('EDI') and is supported by the company's Commitment to Equality, Diversity & Inclusion and Dignity at Work ('EDI Commitment'). As a company with a strong public purpose, we know we must do the right thing and treat people fairly and with dignity and respect. We need to be able to recruit talent from across our diverse communities, which will help us build trust with our customers too. Diversity of thought and talent and an inclusive culture will help us get the best out of our people, innovate, and achieve the best outcomes for our customers. Our EDI Commitment sets out our organisational commitment, the expectations of employees as well as the support available. It applies to, and is made accessible to, all employees, members of the Board and Committees alike and is reviewed on an annual basis by the Board.

Our vision

Our vision, as set out in our EDI Commitment, is for EDI to be fully integrated into our business and for it to be core to how we lead and treat each other.

- There will be no persistent gaps or bias in opportunities or outcomes (equality).
- We will reflect the communities we serve in our workforce (diversity).
- Employees will feel valued, respected, and engaged at work (inclusion and dignity at work).

EDI Committee and employee networks

Our EDI Committee is chaired by the Director of People and Culture and includes other directors (who also act as sponsors for our employee networks), a Board representative, the Head of Culture and EDI, co-chairs of the employee networks, and a trade union representative. It has oversight of the EDI strategy and looks to ensure that the EDI Commitment is being upheld.

We have four established employee networks that provide peer-to-peer support, raise awareness of different experiences, and support the company in building an inclusive working environment.



EDI Strategy

In the past year, Affinity Water has been delivering on our 'Diverse voices, One team' strategy for EDI. It is publicly available and can be found on our website affinitywater.co.uk/docs/reports/EDI-Strategy-2023-2030.pdf. The strategy sets out our strategic priorities and includes an action plan up to 2025/6, including expectations for improvement.

The company has five strategic priority themes:

- Narrow our gender pay gap
- Become Disability Confident and neuroinclusive
- Embed EDI in our talent acquisition and development
- Ensure dignity at work and develop an inclusive culture
- Improve our diversity data collection and analysis

Progress and Implementation

In March 2025, when we published our annual gender and ethnicity pay gap report for 2024, we included a progress update on how we were doing against our strategy. This report can be found on our website

Gender pay gap

In April 2024, our median gender pay gap narrowed to 26% (from 27.6% in 2023) and the mean gender pay gap increased slightly to 18.2% (from 17.9% in 2022). One of the main influences on our gender pay gap is the different roles that men and women occupy. There are very few women in skilled technician roles and women were under-represented in senior leader and manager roles. However, in this current year (2024/5) our senior leaders have become more reflective of the proportion of women in the whole company (34% compared to 35%) and our talent pipeline has become more gender balanced. Following improvements in our family leave policies, our retention of women post-maternity leave has improved and with the help of an active women's network, our female engagement scores have improved significantly.

Ethnicity pay gaps

Our median ethnicity pay gaps also narrowed in April 2024. Asian/Asian British employees' median hourly pay was 1.4% lower than White/White British employees. Black/Black British employees' median hourly pay was 6.2% lower. Our mean ethnicity pay gaps increased by a small amount, and they were 3.4% for Asian/Asian British employees and 7.8% for Black/Black British employees.

We have reviewed our careers site and recruitment processes to ensure we are attracting talented people from across our diverse communities. A higher proportion of our younger employees and participants in our early careers programmes are from minority ethnic backgrounds, which partly accounts for the differences in average pay. We are working with our ONE network, which is focused on ethnic and cultural diversity, to build an inclusive culture where people can thrive and progress whoever they are. For example, we have implemented a company-wide mentoring scheme, open to all, and have carried out a successful reverse mentoring pilot.

As our local communities are becoming more diverse, and those studying relevant STEM subjects have too, we're seeing more people from different ethnic and cultural backgrounds join us. As they tend to be younger and at an early stage in their careers, their average pay is lower, so that will affect our ethnicity pay gaps. We do have lower representation of people from minority ethnic groups among our managers and leaders but when we look at participants in our manager and leader development programmes, we can see that they are more reflective of our total employee base.

	Female	Male
All employees	35%	65%
Managers	31%	69%
ELT and SLT	34%	66%
Board	22%	78%

	Employees
Asian/Asian British	6.4%
Black/Black British	3.9%
Mixed/Multiple heritage	2.0%
White/White British	66.9%
Other ethnic group	1.0%
No response/prefer not to say	19.8%

Approval

On behalf of the Nomination Committee

Mike Brown
Chair of the Nomination Committee

10 July 2025

Remuneration Report

“Our Remuneration Policy strives to ensure that the company's leadership is rewarded appropriately for delivering stretching targets against Affinity Water's strategic priorities and that significant benefits are delivered for all stakeholders.”

Shelley Malton
Remuneration Committee Chair



Terms of Reference at a glance

- The Committee comprises at least four members; a majority of whom shall be independent Non-Executive Directors and one of whom shall be a shareholder-nominated Non-Executive Director.
- The Committee Chair shall be an independent Non-Executive Director.
- Only Committee members attend Committee meetings; however, other individuals such as the CEO, CFO, and Director of People and Culture may be invited to attend from time to time, as appropriate.
- The Company Secretary or their nominee attends every meeting.
- Remuneration Committee meetings shall meet at least twice a year. The Committee's annual programme schedules three meetings a year, and otherwise, as required.
- The Committee Chair reports to the Board on its proceedings and recommendations after each meeting on all matters within its duties and responsibilities.
- No director, company secretary, or senior executive shall be involved in any decisions as to their own remuneration.

Committee members



Mike Brown Justin Read Roxana Tataru

Member	Member since ¹	Meeting attendance
Shelley Malton Chair (from 01/01/2025)		55
Mike Brown Committee member	14/10/2024	23
Justin Read Committee member		55
Roxana Tataru Committee member		44
Andrew Cox Committee member	Resigned 10/06/2024 as alternate	11
Trevor Didcock Committee member (and former Chair)	Resigned 28/02/2025	44
Ian Tyler Committee member	Resigned 17/02/2025	33

¹ if after 1 April 2024

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 welcome the opportunity to introduce myself as the new Chair of the Remuneration Committee, following my appointment on 1 January this year. On behalf of the Committee, I would like to thank my predecessor, Trevor Didcock, for all of his valued diligence and commitment to this Committee and its work. I am pleased to present our 2024/25 Remuneration Report which sets out the remuneration paid to the directors of the company for the year ended 31 March 2025.

Our remuneration policy enables achievement of our overall vision, purpose and strategy by aligning our executive pay to performance across customer, environmental, operational, people and financial measures and to the development and delivery of our business and transformation plans. We continue to set stretching targets across all our incentive schemes, ensuring that we are incentivising our executives and employees to deliver exceptional performance for customers and other stakeholders, the environment, as well as our shareholders.

Last year we reviewed our position of aligning basic salary to the market median, having undertaken a benchmarking review of salary and total package with the support of FIT Remuneration Consultants. We further developed this review internally during the course of 2024/25.

In the previous financial year, we also made changes to our Annual Bonus and Long-Term Incentive Plan ('LTIP') covering the final two years of Asset Management Plan period ('AMP') 7, to bring it in line with Ofwat's expectation that targets are suitably stretching performance, and that metrics should be substantially linked to customer and environmental outcomes.

In 2023/24 achievement under the financial, customer, environmental and safety elements of the annual bonus was 58.3% out of a maximum of 85% for executive directors (with the remaining 15% relating to personal performance). With our operational performance continuing to improve further, awards for 2024/25 have increased to 75.4% out of a maximum of 85%, with the remaining 15% again relating to personal performance.

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 and 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'.

Our approach to remuneration in 2024/25

Customers, regulators, and stakeholders rightly expect that the levels of remuneration received by executive directors, the ELT and other senior managers are linked to the standards of performance experienced by customers. These expectations have been consistently reinforced by Ofwat in its addresses to all Chairs of Remuneration Committees, annual reports on "Protecting customer interests on performance-related executive pay" and additional disclosure requirements in Regulatory Accounting Guidelines 3.14.

The annual bonus targets for 2024/25 were focused on key financial and operational metrics, primarily in line with the stretching business plan targets set out in our PR19 Final Determination including efficiency targets on our base and enhancement costs, water quality, leakage, C-MeX, D-MeX, interruptions to supply, unplanned outage, mains repairs, properties at risk of low pressure, per capita consumption, Net Zero, our enhancement action plan, and health and safety. These metrics applied to all levels of the organisation ensuring everyone in the business is focused on delivering in the areas that matter to customers and other stakeholders, and the environment.

The Remuneration Committee determined the level of bonus awarded in relation to personal performance for executive directors taking into account performance objectives set at the start of the year, behaviours in line with the company values, and the individual's overall performance.

The LTIP scheme for 2024/25 meets Ofwat's direction that at least 60% of measures should be directly related to customer and environmental outcomes. The scheme also ensures that we are incentivising longer-term performance related to delivery of our performance commitments in AMP7, developing a high-quality PR24 plan meeting our customers' needs, and delivering our transformation required to transition into the next AMP. See page 146 onwards for details of the LTIP.

Implementation of the directors' remuneration policy during 2024/25

Our Remuneration Policy strives to ensure that the management team is rewarded appropriately for delivering against Affinity Water's strategic priorities and delivers significant benefits for all stakeholders. We continuously review our Remuneration Policy and remuneration approach to ensure we achieve alignment of regulatory and stakeholder interests, and retain high performing executives.

The Committee's business in the final half of the year was largely informed by the unprecedented level of adverse public and political sentiment across the water sector. Specifically, in mid-2024 the Government announced its intention to convene the Water Commission to review the sector and proceeded with legislation prohibiting

performance related pay where a company breaches a principal statutory duty, earns a 1-star Environmental Performance Assessment score, breaches the minimum credit rating score, or is convicted of a criminal offence.

The Committee was aware of this level of public and regulatory concern when reviewing the remuneration of executive directors for the year ahead. It was also very mindful of the criticality of retaining the current CEO given the significant improvements in the performance for customers and the environment which have been delivered since he joined the business. It is the Committee's view that leadership stability is critical to the delivery of an ambitious programme for AMP8 and that loss of the CEO at this time would pose a very significant risk to this.

The sufficiency of the CEO's remuneration package and the measures needed to ensure that he remained with the business were therefore reviewed by the Committee. In its review, the Committee was very aware of the impact that previous high levels of turnover in the CEO role had on the organisation's ability to deliver high levels of service.

In December 2024, the Committee therefore intensively and carefully reviewed the CEO's total remuneration package and approved a retention payment to the CEO which accelerated 80% of both the forecast AMP7 year five bonus outturn and the forecast outturns of the 2022/23 and 2023/24 LTIP schemes. The payment is subject to clawback conditions and is also subject to a reconciliation at the end of the year five performance year, with the remaining balance to be paid in July 2025.

The Committee is satisfied that the total remuneration received by executive directors in 2024/25 appropriately reflects the company's performance over the year, is in line with policy, and is consistent with Ofwat's expectations for performance related executive pay including the new prohibitions introduced under the Water (Special Measures) Act 2025.

Executive director changes

Adam Stephens joined the Affinity Water Limited Board on 1 January 2025. Adam replaced Martin Roughead who left the business on 4 October 2024. Adam was appointed on terms and conditions consistent with the Remuneration Policy.

The Committee approved the payment of the annual performance bonus for Martin Roughead on a pro rata basis for his period in office.

Our approach to remuneration in Agenda for 2025/26

Designing our AMP8 Incentive Schemes

We have reviewed our annual bonus scorecard for 2025/26 and our LTIP structure as we enter a new five-year performance cycle for the AMP8 business plan following acceptance of our final determination from Ofwat. The review has looked at the most important measures and targets from our PR24 Final Determination to ensure that we continue to align with the interests of customers and the environment, and have incentive targets which will continue to stretch our performance.

When designing the approach we made reference to the PR24 final methodology and subsequent Ofwat publications. We have ensured that the metrics for all layers of the organisation are aligned within the bonus scheme. We have also introduced new performance measures to our scorecard focused on environmental performance including serious pollution incidents and discharges to the environment from water treatment works.

Our LTIP structure for AMP8 has been designed to reflect targets critical to long-term delivery for customers and the environment. These long-term targets include delivery of efficient investment and improved performance on Outcome Delivery Incentives (both measured through their contribution to Return on Regulated Equity). The targets are also aligned to commitments for Biodiversity, Asset Health and our Smart Meter programme (which is critical for delivering on PCC and leakage targets).

Setting Stretching Targets

Executive pay has attracted a lot of attention over recent years, not least within the water sector. The Committee is very aware that its decisions will be subject to scrutiny. Our role is to ensure that the remuneration of our executive directors is fair, justifiable and drives both the right behaviours and results for the benefit of our business, our customers and the environment.

Each year, the Committee undertakes a rigorous process to assess the targets we set. This process is informed by our customers and stakeholders, and is then aligned with our purpose, vision and values. We ensure that we continually review best practice and updates to regulatory guidance. In particular, we aim to reflect the need to provide clarity on why targets are set and how they can be considered stretching.

In the round the threshold levels for the 2024/25 bonus scheme, below which no award is earned, were broadly in line with 2023/24 performance. Achievement of the target levels would represent a significant improvement in performance. In line with our overall improvement in business and customer performance, our outturn for the 2024/25 bonus scheme is showing that the majority of these targets have been exceeded, with a number achieving upper quartile industry performance.

For 2025/26, proposed targets now include the introduction of threshold, target and stretch on a number of performance measures with zero earned below threshold, 75% at target and 100% at stretch. The calibration of these targets has been based on either best ever performance or are in line with the challenging targets set by Ofwat in the final determination.

With specific regard to LTIP measures, these are separate from the annual bonus scorecard metrics, and linked to long-term performance requirements, as well as to customer and environment service levels. The proposed metrics are intended to be leading and objectively measured across a glide path over each year of AMP8 for assessment purposes and are in line with delivery of key aspects of our stretching AMP8 delivery plan.

In particular, the Board has noted and welcomed the additional clarity introduced by the Water (Special Measures) Act which has enacted the expectation of all our customers, regulators, and stakeholders that executives are held to account through loss of bonuses for failure to protect the environment or customers. The Committee now additionally tests the award of all LTIP and bonus payments against the clear requirements of the Act and the 'Performance-related executive pay prohibition rule' published by Ofwat in June 2025 (the 'PRP Rule') and will ensure the Act's requirements are properly taken into account in relation to any performance related pay for executives.

The Committee is cognisant of the evolving landscape in respect of executive remuneration and commits to reviewing the company remuneration structure in light of any further developments.

Shelley Malton

Chair of the Remuneration Committee

10 July 2025

Key

 Customers

 Suppliers

 Regulators

 Shareholders

 Communities

 Employees

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, operational and financial targets applied to annual bonus awards and LTIP vesting.
Alignment to culture	Targets apply to the annual bonus and LTIP awards across the wider workforce in order to consistently drive successful business performance. These targets are reviewed on an annual basis. Malus and clawback provisions apply to annual bonus and LTIP and this, together with deferred annual bonus and holding periods for the executive directors (and any other relevant senior employees), drive the right behaviours expected within Affinity Water. The remuneration arrangements of the wider workforce reinforce employee engagement.

Remuneration at a glance
Aligning our approach to customer and environmental outcomes and business strategy

Element of remuneration	Alignment to strategy	Alignment to our stakeholders' interests
Annual Bonus remuneration		
Base operating plus base capital costs	Ensures we can invest in our assets and provide a great service that customers value	  
Enhancement expenditure	Ensures we can invest in our assets and provide a great service that customers value	  
Cash generated from operations less capital expenditure	Ensures we can invest in our assets and provide a great service that customers value	  
C-MeX: score	Ensures we focus on providing a great service that customers value	  
D-MeX: position in the league table	Ensures we focus on providing a great service that developers value	  
Leakage (M/l/d)	Ensures customers have enough water, while leaving more water in the environment	  
Water quality: Customer contacts	Ensures customers have high-quality water they can trust	  
Water quality: CRI score	Ensures customers have high-quality water they can trust	  
Customer Consumption (PCC litres per day)	Ensures we can make sure customers have enough water, while leaving more water in the environment	  
Interruptions to Supply (minutes interrupted above 3hrs)	Ensures we can minimise disruption for customers and the community	  
Mains repairs (per 1,000km)	Ensures we can minimise disruption for customers and the community	  
Unplanned outage (%)	Ensures we can minimise disruption for customers and the community	  
Business demand (litres per day)	Ensures we can make sure customers have enough water, while leaving more water in the environment	  
Net Zero: Scope 1 and 2 emissions (kg/Ml)	Ensures we can make sure customers have enough water, whilst leaving more water in the environment	  
Enhancement action plan	Ensures we can invest in our assets and provide a great service that customers value	  
Safety (accident frequency rate)	Ensures we can minimise disruption for our people, customers and the community	   
Long-term Incentive Plan ('LTIP')		
Financial	Ensures we achieve long-term stakeholder value based on company performance	    
Customer and environment	Ensures we provide a great service that customers value	  
Long-term plan	Ensures we focus on delivering long-term plan quality and outcomes, and AMP8 readiness	  
Employees	Ensures our employees are engaged to support our culture and fulfilment of our purpose	 
Safety	Ensures our people can work to deliver our customer outcomes effectively and safely	 

Remuneration Report

continued

Aligning pay with performance

Key performance indicators for the bonus and LTIP measures for the year to 31 March 2025 included below

KPIs	Result
Base operating plus base capital costs	£326.7m
Enhancement expenditure	£92.3m
Cash generated from operations less capital expenditure	-£23.7m
C-MeX	70.10
D-MeX	89.50
Leakage	148.1 Ml/d
Water Quality: Customer contacts	0.60
Water Quality: CRI score	1.44
Customer Consumption	26.12 Ml/d
Interruptions to supply	3 minutes and 21 seconds
Mains repairs	113.4
Unplanned outage	1.45%
Business demand	0.28 Ml/d
Net Zero	135 kg/Ml
Enhancement action plan	41
Accident frequency rate	0.14
AMP7 financial performance	Various
Employee engagement	8.1
Environmental innovation	Various
AMP8 plan quality, readiness and AMP7 delivery	Various

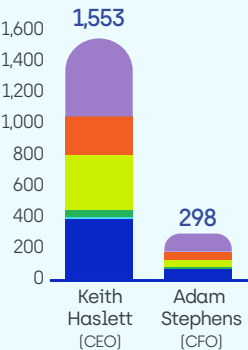
- Key**
- Below threshold target
 - At or above stretch target
 - Between threshold and stretch target

Single total figure of remuneration for executive directors for year ended 31 March 2025 (£000)

Amounts paid to Adam Stephens reflect a pro-rata element for his period in office.

- Key**
- Base salary
 - Taxable benefits
 - Pension-related benefits
 - Annual Bonus
 - Long-term incentive plan
 - Other¹

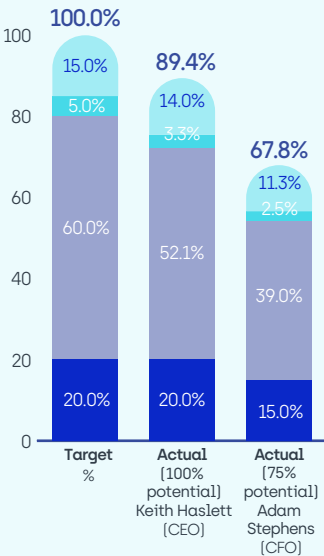
¹ Other remuneration for both Keith Haslett and Adam Stephens is detailed on page 146.



2024/25 Annual bonus outcome

These charts show the results of the performance against targets for the annual bonus. Further information about the annual bonus is shown on page 140.

- Key**
- Financial
 - Safety
 - Customer and Environment
 - Personal performance

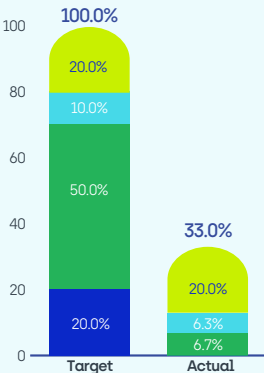


Long-term incentive plan ('LTIP') outcomes

The charts below show the results of the performance against targets for LTIP. Further information about the LTIP is shown on page 146.

2022/23 LTIP scheme outcome

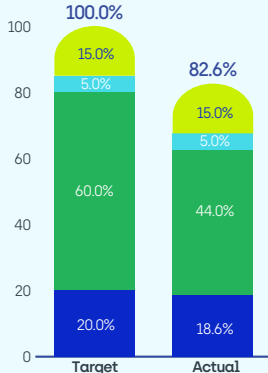
- Target and Actual amounts are calculated on an initial award of base salary of 83.33% for the CEO, with a stretch award of 125%.
- The 2022/23 LTIP scheme vested on 31 March 2025.
- Actual performance shown is the average over the three years of this scheme.
- The current CFO is a not participant of the 2022/23 LTIP scheme.



- Key**
- Financial
 - Customer and Environment
 - People
 - Long-term plan

2023/24 and 2024/25 LTIP schemes outcome

- Target and Actual amounts are calculated on an initial award of base salary of 66.67% for both the CEO and CFO, with a stretch award of 100%.
- The 2023/24 and 2024/25 LTIP schemes vested on 31 March 2025.
- The award granted to Adam Stephens for the 2024/25 LTIP scheme was made on a pro-rata basis for his period in office.



Remuneration policy report

Introduction

We have prepared this report in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'), which are applicable to companies whose equity shares are listed. The Regulations are not directly applicable to the company but are reported under to provide transparency. The report also meets the relevant requirements of the Listing Rules of the FCA and describes how we have applied the principles relating to directors' remuneration in the Code. A resolution to approve the report will be proposed at the company AGM.

At our 2024 AGM, the single available vote was cast in favour of the resolution to approve the remuneration policy report, which is subject to a binding vote every year. At the same time, the remuneration implementation report, which is subject to an annual advisory vote, was also approved.

The Regulations require the external Auditor to report to the members of a quoted company on certain parts of the directors' remuneration report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Accounting Regulations of the Act. We have asked PwC to report on this basis, notwithstanding the fact that the Regulations do not apply to our business. The auditable part of the directors' remuneration report has been identified as 'audited'. Other information given is not required to be audited.

Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration policy and the terms and conditions of employment of the directors and senior executives. The Committee met on four occasions during the year, three of which were chaired by Trevor Didcock and one chaired by Shelley Malton.

Membership of the Committee, during the year, is shown in the table below:

Director	Independence
Shelley Malton (Chair)	Independent
Mike Brown	Independent (appointed 14 October 2024)
Justin Read	Independent
Roxana Tataru	Shareholder appointed
Andrew Cox	Shareholder appointed alternate (appointed 15 November 2023, stepped down 10 June 2024)
Trevor Didcock	Independent (resigned 28 February 2025)
Ian Tyler	Independent (resigned 17 February 2025)

Keith Haslett, CEO, Adam Stephens, CFO, Martin Roughead, former 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 2025 fell into two groups, as shown in the table below.

Group A	Group B
Chris Newsome	Adam Waddington
Justin Read	Mike Osborne
Shelley Malton	Roxana Tataru

Our Board considers the directors in Group A to be independent. Each has a written agreement relating to their services. They receive a fee for their services, which is not related to company performance. They are not in receipt of share options or an LTIP. The fees for these directors are set considering the market rate for non-executive directors, with particular reference to the water industry in the United Kingdom. The fees were reviewed during the previous year and no change was made.

There are no specific termination payments applicable to these appointments. The appointment of the directors may be terminated by either the director or the company giving to the other three months' written notice.

The directors in Group B are appointed by our shareholders. They do not receive any fees or other form of remuneration from the company in respect of their services. At each AGM, all directors must seek re-election.



Remuneration policy for executive directors

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

For 2024/25, 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. The Committee considers, in arriving at a total package, the skills and experience of the candidate, the market rate for a candidate of that level of experience, as well as the importance of securing high calibre candidates. Annual bonuses and long-term incentives are awarded in line with the maximum limits outlined in the remuneration policy report. Participation in the plans is normally pro-rated during the year of joining.

The Committee may make additional cash awards if deferred pay is forfeited by an executive director on leaving a previous employer. Such awards would consider the nature of awards forfeited (i.e. cash or shares), time horizons, attributed expected value and performance conditions. Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.

Shareholder views on executive directors’ remuneration for 2024/25 were considered through the presence of at least one director appointed by our shareholders on the Committee. As with other Committee members, shareholder directors must have regard to the views of other stakeholders, the risk appetite of the company and alignment to the company’s long-term strategic goals when fulfilling their duties.

The Committee did not, formally, consult with employees when drawing up the directors’ remuneration policy, but considered the average base salary of employees, which may be subject to inflationary increases, in setting base salaries for the executive directors, 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 is a longer-term scheme, with performance generally measured over a three-year period and payments made in each of the following three financial years.

The remuneration of executive directors reflects the performance of the business through the annual bonus plan and LTIP schemes. The Remuneration Committee established measures of financial and non-financial performance for the year, which are listed in the table on the following page. The achievement of performance against these targets provided the basis for determining the value of annual bonus and LTIP awards.

We continued to link the remuneration of executive directors to the standards of performance expected by customers by aligning the operational targets, where possible, to our stretching AMP7 commitments. C-MeX and D-MeX, for example, are not aligned to AMP7 targets as these do not have a target in the final determination; however, the internal target is to improve performance for customers over AMP7. The safety target is to maintain the stretching performance seen in prior years.

The LTIP and annual bonus metrics in the table on the following pages were selected as we consider them key to meeting our company objectives for the year.

Our company objectives are set to ensure we can meet our four customer outcomes below:

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

The Remuneration Committee also determined the level of bonus awarded in relation to personal performance, assessing personal objectives set at the start of the year, application of the company values and overall performance of executive directors.

The key changes made in 2024/25 were included in the 2023/24 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 transformation of our business and the planning process for the next AMP to ensure that we have a high-quality plan that delivers for customers and stakeholders.



Purpose and link to strategy	Policy and approach	Maximum potential value [as % of base pay]	Performance metrics	2025/26 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 experience in the role	N/A	N/A	Changes to the policy have been approved for AMP8 segmenting the remuneration package between fixed, retention and non-contractual performance related pay elements. These arrangements were formally agreed during the Remuneration Committee meeting in February 2025.
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).	N/A	N/A	Changes to the policy have been approved for AMP8 following a benchmark of overall remuneration packages. This element of remuneration remains broadly in line with 2024/25.
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.	Maximum bonus potential is set at a market competitive level. The bonus is based on budgeted non-financial and financial targets that are aligned to the company's commitments for AMP7, plus individual targets. 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 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 100% of base salary for the CEO and up to 75% of base salary for the CFO. Where discretion is applied to executives relating to the performance of measures, the same level of discretion must be applied to all employees and managers. This is not reciprocal; discretion may be applied to employees and not executives.	For 2024/25, in order to maintain the Ofwat guidance that 60% of incentives should be based on achievement of customer measures, the scheme metrics have been set as follows: - Financial: Base Costs [6.67%], Enhancement Expenditure [6.67%], and Cash Generation [6.67%] - Customer and Environment: [5.00% each]: - C-MeX - D-MeX - Leakage - Customer contacts for water quality - Compliance Risk Index - Per capita consumption - Interruptions to supply - Mains repairs - Unplanned outage - Business demand - Net Zero - Enhancement Action Plan - Safety [5%] Personal performance against objectives [15%]. These arrangements were formally agreed during the Remuneration Committee meeting in May 2024.	For 2025/26, the metrics set are as follows: - Customer and Environment: [5.00% each unless otherwise specified]: - Base Opex and Capex Costs [25%] - C-MeX - D-MeX - Compliance Risk Index - Water quality contacts - Leakage - Interruptions to supply - Unplanned outage - Per capita consumption - Business demand - Serious pollution incidents [2.5%] - Discharge from water treatment works [2.5%] - Health and safety - People engagement [5%] Personal performance against objectives [15%]. 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.

Purpose and link to strategy	Policy and approach	Maximum potential value [as % of base pay]	Performance metrics	2025/26 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.	Base awards are granted as a percentage of salary and are paid out in cash at the end of the multi-year performance period, with 33% of the amount earned paid at the end of the performance period, 33% paid at the end of the following year and 33% paid at the end of the second year following the performance period subject to the achievement of performance conditions.	Up to 100% of base salary for the CEO and CFO.	The award is determined based on the performance of the company over the two years to 31 March 2025.	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:
			20% of the scheme award is based on financial targets, including Base Expenditure and Enhancement Investment; 60% based on delivery for our customers and the environment, measured by the Outcome Delivery Incentive position across our ten key metrics; 5% based on employee engagement; and 15% based on long-term planning, including Quality of AMP8 readiness, and the AMP7 target operating model.	1. Totex and Outcome Delivery Incentive ('ODI') elements of Return on Regulated Equity [50%]
			A former metric involving an underpin based on safety performance has been removed, but performance in this area will form part of the Remuneration Committee's discretion.	2. Customer transformation programme [10%]
			These arrangements were formally agreed during the Remuneration Committee meeting in May 2023.	3. Environmental improvement programme [10%]
			The June 2025 Remuneration Committee meeting approved the disaggregation of the ten key metrics into component parts, with a higher weighting applied to the Compliance Risk Index and Per capita consumption measures, in lieu of the Low pressure measure, due to the importance of customer service levels, influencing customer behaviour and our environmental requirements.	4. Water quality and resilience [20%]
	The 2024/25 scheme is based on end of AMP7 targets (with a two-year performance period) that are aligned to the delivery of AMP7 and preparation for AMP8. The payment dates would be July 2025 (33%), July 2026 (33%), and July 2027 (33%).			5. Biodiversity net gain [10%].
	Awards include clawback and malus provisions, detailed as follows: circumstances of malus include wilful or gross misconduct, acts of personal dishonesty or fraud, conviction of certain criminal offences, conduct, which results in significant losses to the company, material failure of related management or business units, material misstatement in the audited financial statements, and reputational damage.			The maximum potential value has been set at 30% of base salary for both the CEO and CFO.
	Additionally, further malus and clawback requirements shall apply in accordance with the Water (Special Measures) Act 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.			These arrangements were formally agreed during the Remuneration Committee meeting in March 2025.
	The awards do not automatically vest on change of control of the business.			
	The LTIP schemes continue to be aligned to Ofwat guidance providing a substantial link to delivery for customers and the environment (>60%).			

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	2025/26 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 2024/25 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	The arrangement was formally agreed by the Remuneration Committee meeting in February 2025, and will be introduced from 2025/26.
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 2024/25 up to the date of approval of this Annual Report and Financial Statements.

Executive directors' service contracts

The executive directors currently serving each have service contracts, neither of which are fixed term, with notice periods as follows:

CEO Keith Haslett	CFO Adam Stephens
From the executive to the company – 12 months	From the executive to the company – 12 months
From the company to the executive – 12 months	From the company to the executive – 12 months

Generally, in the event of loss of office, the executive directors are subject to the terms and conditions as set out in their respective service contracts and employment letters with the company. These service contracts do not set out details of how the circumstances of the director's departure and performance during a period of office might be considered when exercising discretion in relation to loss of office payments. They also do not contain provisions implying an obligation on the company in the event of loss of office.

Base awards under the LTIP include provisions that enable the company to recover sums paid or withhold the payment of any sum in a circumstance, or circumstances, of malus before the vesting of the award or within a clawback period of three years commencing on the payment date of the award.

Circumstances of malus include wilful or gross misconduct, acts of personal dishonesty or fraud, conviction of certain criminal offences, conduct which

results in significant losses to the company, material failure of related management or business units, material misstatement in the audited financial statements, and reputational damage. If an executive director ceases to hold office prior to the vesting date, other than in the event of death, ill-health, injury, or disability, as established to the satisfaction of the Board; the company ceasing to be part of the Group or transferred to another Group company; or another reason at the Board's discretion, except where the director is summarily dismissed, their unvested award will lapse.

Additionally, further malus and clawback requirements shall apply in accordance with the Water (Special Measures) Act 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.



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, 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, and personal targets are met), in addition to awards from LTIP schemes as they vest and become payable in the look-out period covered.

Management

We operate a discretionary performance bonus scheme for executive directors, the ELT and other selected managers who meet the criteria for inclusion in the scheme. At the date of approval of this Annual Report and Financial Statements, the ELT were entitled to participate in a performance related discretionary bonus scheme of up to 50% of their salary. This is payable after the end of the financial year. Bonus awards are dependent on the success of the company.

For the ELT, they are determined by reference to three components:

- 20% of the total bonus is dependent on the achievement of financial performance targets, which are identical to the executive directors' annual bonus scheme
- 65% of the total bonus is dependent on the achievement of operational, customer, environmental and safety performance targets, which are identical to the executive directors' annual bonus scheme
- 15% of the total bonus is dependent on the achievement of personal objectives

For other selected managers who meet the criteria for inclusion in the scheme, bonus awards, the majority of which are up to a maximum of 10% of their salary, are also determined by reference to the same three components and weightings:

- 20% of the total bonus is dependent on the achievement of financial performance targets
- 65% of the total bonus is dependent on the achievement of customer service and stakeholder commitments
- 15% of the total bonus is dependent on the achievement of personal objectives

The scheme is designed to provide a direct link between senior management and company performance and both bonus award and payment remain discretionary

Company culture

In 2024/25, we continued our culture transformation programme, working to embed our new purpose, vision and values. This included:

- A thorough review of feedback submitted by employees to our online listening platform about how it feels to work here and their views on how we are doing as a company to deliver on our purpose.
- Engagement with our senior leadership team on the kind of culture and ways of working we need to embed to deliver our strategic objectives.
- Development and implementation of our 'Lead the Way' leadership behaviour framework.

In 2024/25, we continued to improve our employee engagement. Over 90% of employees have responded in the past year to the quarterly questionnaires. Our engagement is in the top 25% for the utilities sector at 8.1, and our scores for both diversity and inclusion, and reward, are in the top 25%, and for mental health and wellbeing they are above the median for the sector.

61% of our employees scored us a nine or ten out of ten on engagement, also contributing to a significantly above average employee net promoter score.

Remuneration Implementation Report

Company-wide bonus scheme

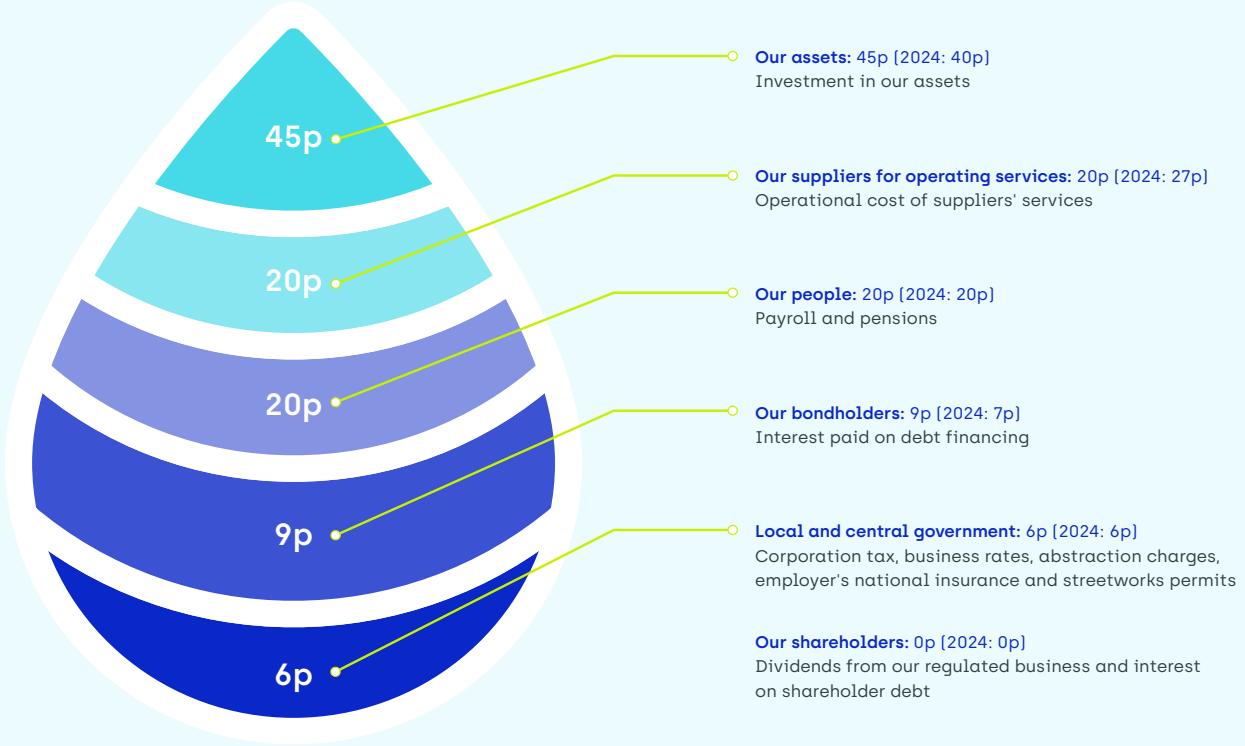
The Committee reviews and approves a discretionary company-wide performance bonus scheme for all employees, who are not, otherwise, entitled to the discretionary ELT or other selected manager performance bonus scheme. The discretionary company-wide bonus scheme comprises operational, customer, environmental and financial performance measures.

At the date of approval of this Annual Report and Financial Statements, the bonus targets for all performance measures continued to be aligned with those in the schemes for executive directors, the ELT and other selected managers. This ensures there is a common focus across the business, particularly with respect to service to customers.

Relative importance of spend on pay

The amount spent on our people in 2024/25 has remained comparable to the prior year on a proportionate basis, reflecting the inflationary 4.2% increase in basic salary for employees with effect from 1 April 2024, 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, remaining consistent at 20p (2024: 20p) per pound of total expenditure, as shown below¹.



¹ Figures are based on our regulatory financial statements for the year ended 31 March 2025 and have been rounded

Remuneration Report

continued

Sections that are audited and unaudited are defined in the relevant headings in the implementation report.

Directors' remuneration 2024/25 [audited]

The following table shows the directors' remuneration in respect of 2024/25.

	Base salary/fees ¹		Taxable benefits ²		Annual bonus		LTIP		Pension-related benefits ³		Other ⁴		Total fixed remuneration		Total variable remuneration		Total	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	24/25	23/24	24/25	23/24	24/25	23/24	24/25	23/24	24/25	23/24	24/25	23/24	24/25	23/24	24/25	23/24	24/25	23/24
Non-executive																		
Current																		
Shelley Malton	54	17	–	–	–	–	–	–	–	–	–	–	54	17	–	–	54	17
Chris Newsome	63	63	–	–	–	–	–	–	–	–	–	–	63	63	–	–	63	63
Justin Read	63	60	–	–	–	–	–	–	–	–	–	–	63	60	–	–	63	60
Former																		
Trevor Didcock	56	64	–	–	–	–	–	–	–	–	–	–	56	64	–	–	56	64
Company Chair																		
Current																		
Mike Brown	45	–	–	–	–	–	–	–	–	–	–	–	45	–	–	–	45	–
Former																		
Ian Tyler	171	195	–	–	–	–	–	–	–	–	–	–	171	195	–	–	171	195
Executive																		
Current																		
Keith Haslett	392	376	10	16	350	272	251	-	47	45	503	-	449	437	1,104	272	1,553	709
Adam Stephens	68	-	3	-	46	-	56	-	8	-	117	-	79	-	219	-	298	-
Former																		
Martin Roughead	123	220	3	12	53	123	-	-	15	27	-	40	141	259	53	163	194	422
	1,035	995	16	28	449	395	307	-	70	72	620	40	1,121	1,095	1,376	435	2,497	1,530

- 1 Taxable benefits comprise company car allowance and healthcare.
- 2 The LTIP amounts disclosed for Keith Haslett and Adam Stephens 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 will be paid in equal instalments over the three years ending 31 March 2026, 31 March 2027 and 31 March 2028.
- 3 Pension-related benefits for Keith Haslett 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. Pension-related benefits for Adam Stephens and Martin Roughead comprised amounts paid in lieu of being a member of the pension scheme; there were no amounts outstanding at the year-end.
- 4 Other remuneration in 2024/25 for Keith Haslett related to the remaining aspects of the accelerated December 2024 bonus and LTIP retention payment. Other compensation in 2024/25 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. Other remuneration in 2023/24 for Martin Roughead related to a relocation allowance.

Neither the company, nor its immediate parent entities, have any listed shares and so the directors have not been offered any share incentives. The directors appointed by Allianz Capital Partners on behalf of the Allianz Group, DIF and InfraRed Capital Partners Limited on behalf of HICL Infrastructure PLC did not receive any emoluments from the company.

Payments to past directors (audited)

As disclosed in the table above, a bonus payment totalling £53,000 will be made to Martin Roughead relating to the annual bonus scheme for executive directors. This payment was prorated to reflect his period of service during the year, and eligibility to the scheme was subject to the achievement of additional performance conditions set by the Remuneration Committee to cover his period of notice.

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 2024/25 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.

		2024/25 target	2024/25 actual	Maximum weighting for 2024/25 (as a % of base salary)		2024/25 achievement (as a % of base salary)	
Performance measure	Link to alignment of culture, purpose, values and strategy		Target met	Keith Haslett	Adam Stephens	Keith Haslett	Adam Stephens
Financial measures							
Base operating plus base capital costs		£327.5m or less	£326.7m	6.67% £26,129	5.00% £3,377	6.67% £26,129	5.00% £3,377
Enhanced expenditure		£74.1m or more	£92.3m	6.67% £26,129	5.00% £3,377	6.67% £26,129	5.00% £3,377
Cash generated from operations less capital expenditure		(£31.7m) or more	(£23.7m)	6.66% £26,090	5.00% £3,372	6.66% £26,090	5.00% £3,372
Customer and environment measures							
C-MeX ¹ : score		74.0 or more	70.10	5.00% £19,587	3.75% £2,531	0.00% £nil	0.00% £nil
D-MeX ² : position in the league table		89.0 or more	89.50	5.00% £19,587	3.75% £2,531	5.00% £19,587	3.75% £2,531
Leakage: volume of water lost through leaks on the network (ML/d)		144.9 ML/d or less	148.1 ML/d	5.00% £19,587	3.75% £2,531	4.56% £17,766	3.42% £2,296
Water quality: Customer contacts reported per 1,000 population		0.67 or less	0.60	5.00% £19,587	3.75% £2,531	5.00% £19,587	3.75% £2,531
Water quality: CRI score		2.0 or less	1.44	7.50% £29,381	5.63% £3,797	7.50% £29,381	5.63% £3,797
Customer consumption: PCC litres per day		24.0 ML/d or more	26.12 ML/d	5.00% £19,587	3.75% £2,531	5.00% £19,587	3.75% £2,531
Interruptions to supply: minutes interrupted above three hours		5 minutes and 00 seconds or less	3 minutes and 21 seconds	5.00% £19,587	3.75% £2,531	5.00% £19,587	3.75% £2,531
Mains repairs (per 1,000km)		less than 142.3 repairs per 1,000km of mains	113.4	5.00% £19,587	3.75% £2,531	5.00% £19,587	3.75% £2,531
Unplanned outage [%]		2.34% or less	1.45%	5.00% £19,587	3.75% £2,531	5.00% £19,587	3.75% £2,531
Business demand: litres per day		1.0 ML/d or more	0.28 ML/d	2.50% £9,794	1.88% £1,266	0.00% £nil	0.00% £nil
Net Zero: Scope 1 emissions reduced by 5% (tCO ₂ e)		141 or less	135	5.00% £19,587	3.75% £2,531	5.00% £19,587	3.75% £2,531
Enhancement action plan: 90% of enhancement action plan milestones delivered on a cumulative basis		40 or more	41	5.00% £19,587	3.75% £2,531	5.00% £19,587	3.75% £2,531
Safety and health measure							
Accident frequency rate (annual target): number of lost time injuries per 100,000 hours worked		0.11 or below	0.14	5.00% £19,587	3.75% £2,531	3.33% £13,025	2.49% £1,683
Personal performance ³ :				15.00% £58,761	11.25% £7,594	14.00% £54,844	11.25% £7,594
Total percentage of base salary				100.00%	75.00%	89.37%	67.78%
Base salary						£391,740	£67,500
Bonus paid						£350,059	£45,745

- 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 2024/25.
- Key: Target met Threshold met Target not met

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)

Awards were granted to Keith Haslett with a vested amount of £251,000 relating to the 2022/23, 2023/24 and 2024/25 LTIP schemes, the targets of which are summarised on page 136, as follows:

- 2022/23 LTIP (vested on 31 March 2025): £40,000 relating to actual performance achieved of 26.67%, 35.56% and 36.67% for years 1, 2 and 3 of the LTIP scheme respectively, and applied on a pro-rata basis to reflect his period of service in year 1; and
- 2023/24 and 2024/25 LTIP (vesting on 31 March 2025): £211,000 relating to actual performance achieved of 82.60%. This LTIP scheme also combined awards four and five of the AMP.

An award was also granted to Adam Stephens with a vested amount of £56,000 relating to the 2024/25 LTIP scheme, and applied on a pro-rata basis to reflect his period of service during the year.

The 2022/23 LTIP award was calculated with target and actual amounts based on an initial award of base salary of 83.33%, with stretch targets available up to 125% achievement. The 2023/24 and 2024/25 LTIP awards were calculated with target and actual amounts based on an initial award of base salary of 66.67%, with stretch targets available up to 100% achievement.

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 116 to 123 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 2025 to 31 March 2026 has been negotiated with trade unions, resulting in the following:

- 3.3% increase to the basic pay of all employees [4.2% for the period 1 April 2024 to 31 March 2025]; and
- 3.3% increase in allowances that are taxable and pensionable, primarily flexible, and standby allowances [4.2% for the period 1 April 2024 to 31 March 2025].

This pay deal was also 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 AMP 8. An increase of 4.2% was awarded for the prior year with effect from 1 April 2024.

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			
	2024/25	2023/24	2022/23	2021/22	2020/2	2024/25	2022/23	2021/22	2020/21
	£000	£000	£000	£000	£000	%	%	%	%
Non Executive Director (NED)									
Trevor Didcock:									
Fees	56	64	60	51	51	[12.2%]	6.67%	15.0%	0.0%
									Change in 2023/24 and 2022/23 reflects an increase in fixed fee from 1 October 2022 as well as an additional element for the Chair of the Remuneration Committee role from 1 April 2022; Director resigned from 28 February 2025
Shelley Malton:									
Fees	54	17	-	-	-	210.1%	100%	N/A	N/A
									Director appointed on 1 December 2023, and became Chair of the Remuneration Committee from 1 January 2025

	Total base salary/fees, taxable benefits and annual bonus					Percentage change from				
	2024/25	2023/24	2022/23	2021/22	2020/2	2024/25	2022/23	2021/22	2020/21	
	£000	£000	£000	£000	£000	%	%	%	%	
Chris Newsome:										
Fees	63	63	56	49	49	0.0%	12.5%	14.3%	0.0%	Change in 2023/24 and 2022/23 reflects an increase in fixed fee from 1 October 2022 as well as an additional element for the Director of Employee Engagement role
Justin Read:										
Fees	63	60	55	50	35	4.9%	9.1%	10.0%	N/A	Director appointed on 14 July 2020; change in 2023/24 and 2022/23 reflects an increase in fixed fee from 1 October 2022; change in 2024/25 reflects an increase due to Senior Independent Director appointment
Company Chair										
Mike Brown:										
Fees	45	–	–	–	–	N/A	N/A	N/A	N/A	Director appointed on 14 October 2024 as Chair Designate, with full appointment to Chair occurring from 17 February 2025
Ian Tyler (former Chair):										
Fees	171	195	234	195	44	[12.4%]	[16.67%]	20.0%	N/A	Chair resigned from 17 February 2025, following appointment on 11 January 2021; includes an amount of £39,230 in 2022/23 for an additional allowance as compensation for taking on an executive Chair role for a period of five weeks and providing CEO transitional activities over a further period of seven weeks
Executive Director										
Keith Haslett:										
Salary	392	376	91	-	-	4.2%	N/A	N/A	N/A	Director appointed on 3 January 2023; 3% inflationary increase applied from 1 April 2023 and 4.2% from 1 April 2024; increased bonus due to improved business scorecard in the year; retention payment made in December 2024
Taxable benefits	10	16	3	-	-	[37.5%]	N/A	N/A	N/A	
Bonus	350	272	34	-	-	28.7%	N/A	N/A	N/A	
Retention	503	-	-	-	-	N/A	N/A	N/A	N/A	
Pension benefits	47	45	-	-	-	4.2%	N/A	N/A	N/A	
Adam Stephens:										
Salary	68	-	-	-	-	N/A	N/A	N/A	N/A	Director appointed on 1 January 2025
Taxable benefits	3	-	-	-	-	N/A	N/A	N/A	N/A	
Bonus	46	-	-	-	-	N/A	N/A	N/A	N/A	
Pension benefits	8	-	-	-	-	N/A	N/A	N/A	N/A	
Martin Roughead (former CFO):										
Salary	123	220	-	-	-	[44.1%]	N/A	N/A	N/A	Director appointed on 17 April 2023 and resigned from 4 October 2024
Taxable benefits	3	12	-	-	-	[75.0%]	N/A	N/A	N/A	
Bonus	53	123	-	-	-	[56.9%]	N/A	N/A	N/A	
Pension benefits	15	27	-	-	-	[44.1%]	N/A	N/A	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
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 2024/25 are calculated using the 5 April 2024 gender pay gap data as permitted under Option B. Option B was used as the gender pay gap reporting date falls within the 2024/25 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 2024 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 2024/25 remuneration for the employees identified, which includes wages and salary, taxable benefits, their accrued 2024/25 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 2024/25 for Keith Haslett. There was an increase 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 as well as an overall improvement in bonus measure performance.

	Salary component of total pay and benefits	Total pay and benefits
2023/24		
25th percentile pay ratio	£26,256	£31,052
Median pay ratio	£50,019	£57,691
75th percentile pay ratio	£74,314	£84,495

In March 2025, we published our gender and ethnicity pay gap report on our website and submitted our gender pay gap data to the government gender pay gap reporting service. This fulfils our statutory obligation as a large private sector employer to publish gender pay information every year. For the first time, we also followed recognised good practice in publishing ethnicity pay information.

The report shows that our gender pay gap on the median measure decreased compared to the previous year, from 27.6% to 26.0%, and on the mean measure it increased from 17.9% to 18.2%. The gender pay gap is mainly a reflection of the different types of roles that men and women do. Our ethnicity pay data shows that median hourly pay for Asian/Asian British employees is 1.4% lower than for White/White British employee and mean hourly pay was 3.4% lower. For Black/Black British employees median hourly pay was 6.2% lower and mean hourly pay was 7.8% lower than for White/White British employees. Again, the gaps are reflective of different types of roles and particularly the greater ethnic diversity of our younger employees (those aged 35 and under) who are therefore more likely to be early in their careers and more junior.

The Remuneration Committee has considered the executive remuneration in light of the CEO and gender pay gap ratios and considers that the current and forward-looking policies are appropriate, and that ratio is representative of the pay and progression policies for employees. The company looks to offer a total reward package, which is equitable and fair for all employees, regardless of gender, and that attracts and retains talent for both executives and all employees.

Statutory requirements

This Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee. The Report was approved by the Board on 10 July 2025 and signed on its behalf by:

Shelley Malton
Chair of the Remuneration Committee

Ownership and financing

Ownership

On 19 May 2017, Affinity Water Acquisitions (Investments) Limited (now liquidated) was acquired by a consortium comprising DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Capital Partners on behalf of the Allianz Group. As part of the transaction, the consortium also acquired Veolia Water UK Limited's former 10% equity interest stake in the company.

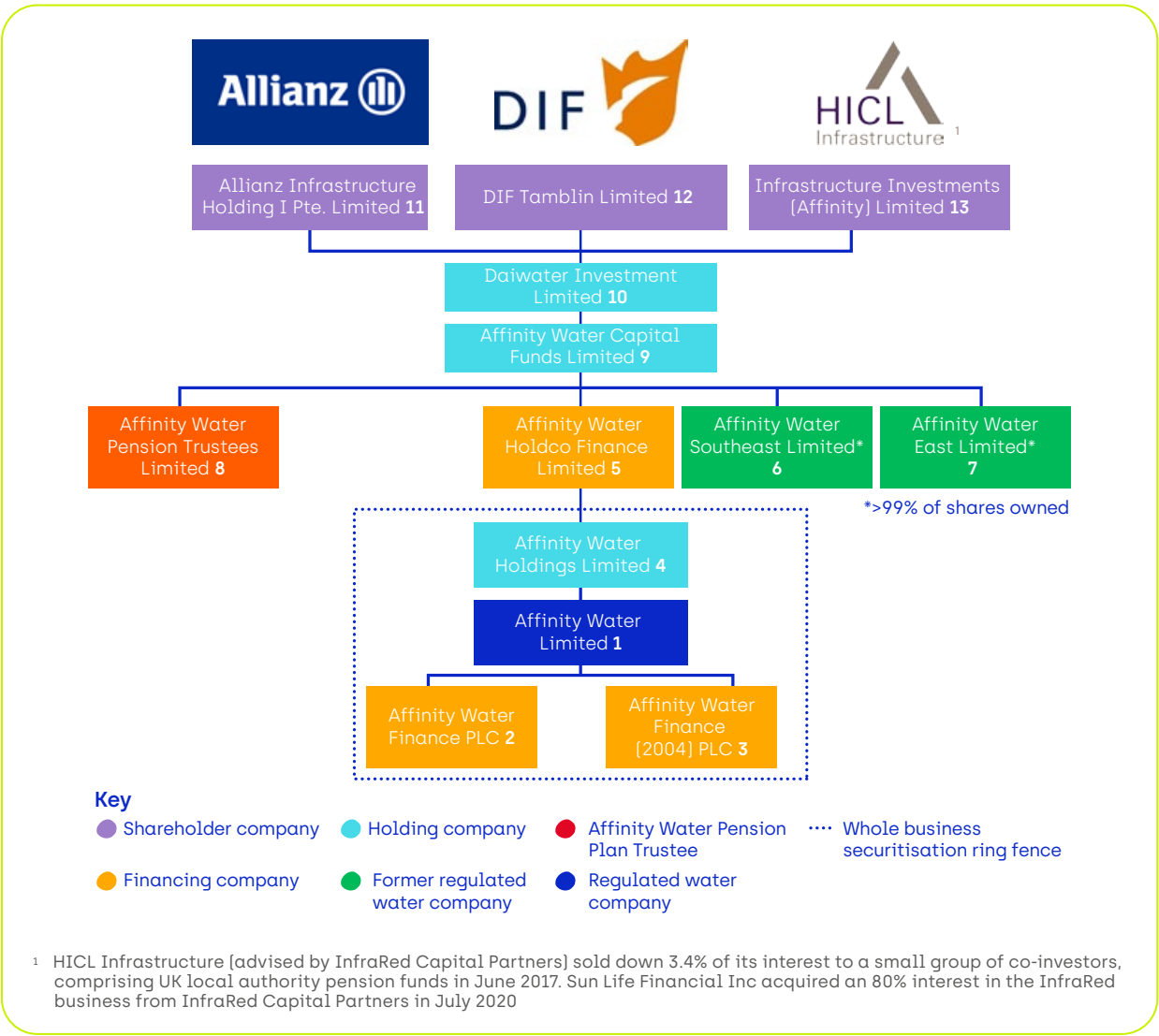
Subsequent to the initial acquisition, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) sold down 3.4% of its interest to a small group of co-investors, comprising UK local authority pension funds in June 2017. On 1 April 2019, HICL Infrastructure Company Limited transferred 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 2025. 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 92 to 94.



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 to the acquisition consortium subsidiaries.	England and Wales
11	Allianz Infrastructure Holding I Pte. Limited	A company, which holds indirectly Allianz Capital Partners' investment in the Group.	Singapore
12	DIF Tamblin Limited	A company established in 2017 to hold indirectly DIF's investment in the Group.	England and Wales
13	Infrastructure Investments [Affinity] Limited	A company established in 2017 to hold indirectly HICL Infrastructure PLC's investment in the Group, together with the co-investment by certain local authority pension funds.	England and Wales

Our financing

Affinity Water Limited is financially, and operationally, 'ring-fenced' from the rest of the Affinity Water Group by way of a Whole Business Securitisation ['WBS']. The securitisation further enhances the ring-fencing provisions already in our licence. The sole business of our immediate holding company, Affinity Water Holdings Limited, is holding the shares of Affinity Water Limited.

We have two financing subsidiaries, which have issued bonds that are listed by the UK Listing Authority ['UKLA'] and the proceeds of which have been lent on to, and are guaranteed by, the company:

- Affinity Water Finance [2004] PLC issued an external bond of £250.0 million in previous years. During the 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 completion of a new £350.0 million bond issuance during the year, this amount has increased to £1,230.0 million. This new bond is classified as a Class A Green Bond..

We believe that the ring-fencing structure provides significant corporate benefits, providing better access to long-term debt markets and an opportunity to reduce the cost of capital employed in the regulated business for the benefit of customers.

Bonds issued by both Affinity Water Finance [2004] PLC and Affinity Water Finance PLC are subject to the Listing Rules and Disclosure and Transparency Rules, being listed by the UKLA. The bonds issued by the company's subsidiaries at 31 March 2025 can be summarised as follows:

Debt	Bond (£m)	Coupon	Maturity date	Issuing Entity
				Affinity Water
Class A fixed rate bond 2026*	102.7	5.875%	July 2026	Finance [2004] PLC
			March 2036	Affinity Water Finance PLC
Class A fixed rate bond 2036*	250.0	4.500%		Affinity Water
		1.548% [real]	June 2045	Finance PLC
Class A RPI linked bond 2045*	190.0	0.010% [real]	September 2038	Affinity Water Finance PLC
Class A CPI linked green bond 2038	130.0		August 2042	Affinity Water Finance PLC
Class A fixed rate bond 2042*	85.0	3.278%	November 2033	Affinity Water Finance PLC
Class A fixed rate bond 2033*	60.0	2.699%	November 2042	Affinity Water Finance PLC
Class A CPI linked bond 2042*	60.0	0.230% [real]		Affinity Water Finance PLC
Class A Fixed rate green bond 2040*	350.0	6.250%	September 2040	Finance PLC
Total Class A	1,227.7			
		3.249% [real]	June 2033	Affinity Water Finance PLC
Class B RPI linked bond 2033	95.0	1.024% [real]	June 2033	Affinity Water Finance PLC
Class B RPI linked bond 2033*	10.0			
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 £102.7m fixed rate bond matures. The maturity profile of all our borrowings is set out in note A4 to our statutory financial statements, and in the graph below.

Our net debt¹ as at 31 March 2025 was £1,487.3 million, an increase of £105.0 million since last year (2024: £1,382.3 million), primarily due to 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 2025, was 77.5% (2024: 74.6%), and remains below our internal maximum gearing level of 80.0% of RCV.

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

Ownership and 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, 54.1% of our gross borrowings were at fixed rates (2024: 48.3%), 30.2% (2024: 33.8%) at rates indexed to RPI and 15.8% (2024: 17.9%) at rates indexed to CPI. Considering our index-linked inflation swaps, the proportion of borrowings at fixed rates decreased to 7.5% (2024: 14.4%); the proportion indexed to RPI increased to 50.6% (2024: 49.2%); and the proportion indexed to CPI increased to 37.2% (2024: 36.4%); there was also a proportion indexed to floating of 4.8% (2024: nil). The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's, and Fitch were as follows. Our credit ratings have not changed since March 2024.

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

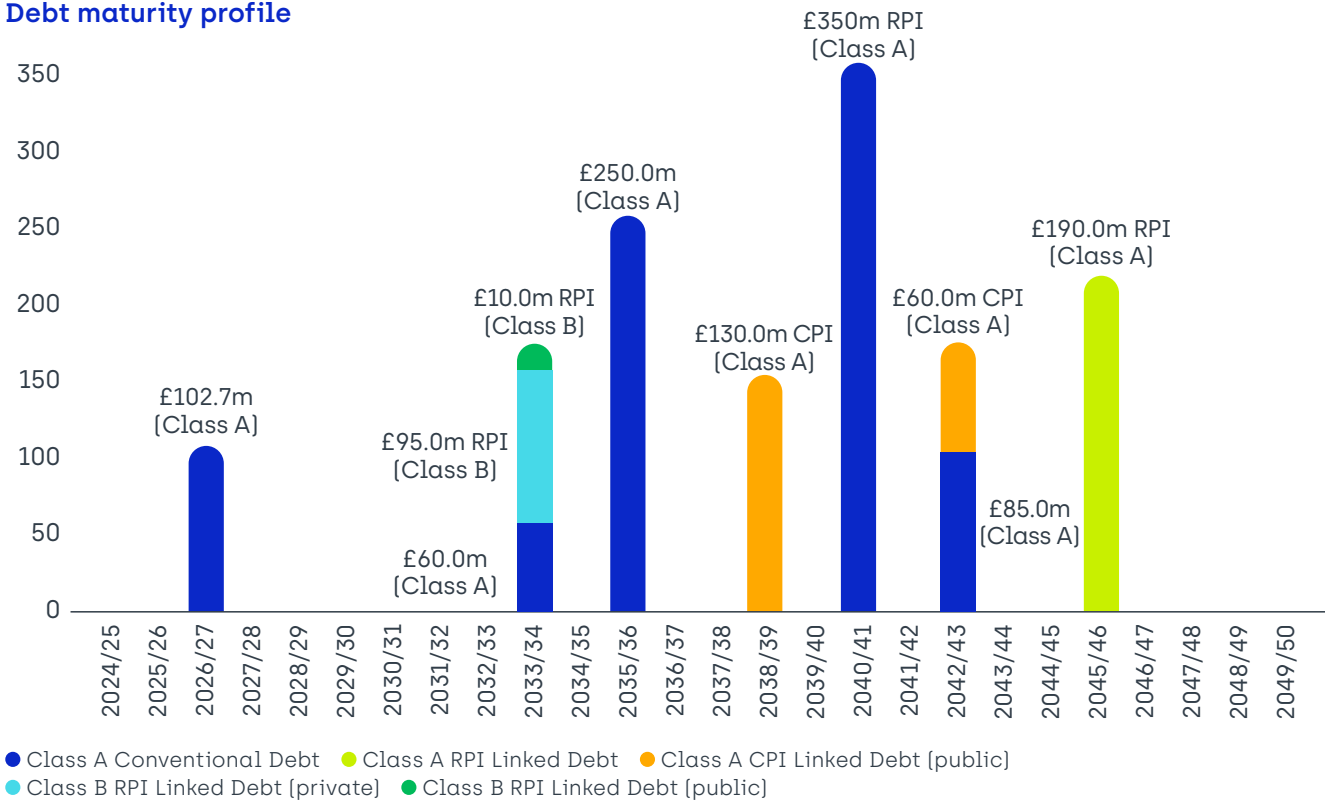
Our liquidity is managed through banking arrangements and adequate (though not excessive) cash resources, borrowing arrangements and standby facilities. This enables us to have the level of funds available that are necessary for the achievement of our business and service objectives at all times. At 31 March 2025, we had cash balances of £128.0 million (2024: £59.8 million) and short-term deposits held as investments of £80.8 million (2024: £21.6 million). The increase in cash from the prior year is primarily due to the issuance of the new bond of £350.0 million and after a part repayment of an existing bond, the proceeds of which have been deposited into various deposit accounts.

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 (2024: £100.0 million), which were undrawn at 31 March 2025

(2024: undrawn), to finance capital expenditure and working capital requirements. An amount of £15.0 million was drawn down for a few weeks in early 2025 but was fully repaid by the end of February 2025

In addition, we have access to a further £57.0 million of liquidity facilities (2024: £57.0 million), consisting of a 364-day revolving £29.0 million facility to fund any debt service payments in the event of a liquidity shortfall, which would, otherwise, prevent such payments being made, and a 364-day revolving facility of £28.0 million to fund operating and capital maintenance expenditure in the event of a liquidity shortfall.

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 2025. 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 2025. Details of the ownership of the company and the Group structure are set out on page 151 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 2025. Details of the risks and principal uncertainties facing the company are set out on page 49.

Directors

The directors of the company as at 31 March 2025, together with their periods of office and their biographical details, are shown on pages 92 to 94. The directors who were in office during the year, and up to the date of signing the financial statements, are summarised below:

Adam Stephens
[appointed 1 January 2025]

Adam Waddington

Andrew Cox
[as an alternate Director and stepped down 10 June 2024]

Chris Newsome

Ian Tyler [stepped down 17 February 2025]

Justin Read
[Senior Independent Director]

Keith Haslett

Martin Roughead
[stepped down 4 October 2024]

Mike Brown
[appointed 14 October 2024]

Mike Osborne

Roxana Tataru

Shelley Malton

Trevor Didcock
[stepped down 28 February 2025]

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 14.

Results and financial performance

Loss for the year £16.8 million [prior year has changed to £34.9 million due to a restatement] with net liabilities of £[138.5] million and prior year of £[121.6] million. Further analysis of our financial performance can be found in the Financial Review by the Chief Financial Officer on page 44 of the Strategic Report.

Information required under the Listing Rules

During the year, interest was capitalised by the company in accordance with International Accounting Standard [IAS] 23: 'Borrowing costs' [IAS 23], with a restatement to the prior year. For disclosures relating to borrowing costs, please refer to page 180. For disclosures relating to the relevant requirements of the Listing Rules, please refer to the Remuneration Report on pages 130 to 150.

Dividends

The Board restricted dividend payments during AMP7 to support investment in resilience and environmental protection. No equity dividends were paid in 2023/24 or 2024/25, reflecting our shareholders' commitment to reinvest returns from both appointed and non-appointed businesses for customers' benefit. Dividend payments are expected to resume in AMP8. A revised policy, aligned with updated licence requirements, was approved by the Board and took effect from 1 April 2025. It reflects our commitment to balance stakeholder interests and maintain financial resilience. Our dividend policy is available on our website: affinitywater.co.uk/governance-assurance.

Greenhouse gas emissions

This section provides information about our energy consumption, greenhouse gas ('GHG') emissions and our performance in managing them. We have been confidently reporting our Scope 1 and 2 emissions for several years now and are now in the third year of reporting our full carbon footprint (Scope 1, 2 and 3 emissions).

How we report our emissions

We account for all energy and operational emissions for which Affinity Water Limited has 'operational control' as defined by the GHG Protocol.

Our carbon footprint is calculated by converting the main GHGs into a carbon dioxide equivalent (tCO₂e). Emissions are categorised into scopes (based on the GHG Protocol) as follows:

Scope 1 emissions (direct emissions) are those from activities we own or control, including those from our treatment processes, company vehicles, and burning of fossil fuels for heating.

Scope 2 emissions (indirect emissions) result from purchased heat and electricity.

Scope 3 emissions (indirect emissions) arise from activities we do not own or control, but which we can

Market-based and location-based reporting

A location-based method reflects the average emissions intensity of the electricity grid on which energy consumption occurs (using mostly grid-average emission factor data). A market-based method reflects emissions from electricity that companies have purposefully chosen. For Affinity Water, this means market-based reporting reflects when our electricity is provided by renewable sources, using a REGO-backed green tariff.

The Renewable Energy Guarantees of Origin ('REGO') scheme provides certificates called REGOs, which demonstrate electricity has been generated from renewable sources.

influence. These include those from the products and services we buy.

We use a combination of methods to estimate the emissions associated with our carbon footprint following the principles of the 2015 GHG Protocol Corporate Accounting and Reporting Standard. For Scope 1 and 2 emissions we follow the most common approach to calculate GHG emissions, which is to take activity data (e.g. units of electricity consumed, or distance travelled) and convert the activity data into tCO₂e. For Scope 3 emissions, where possible this is estimated using activity

data and where this is not possible, estimates have been derived from spend-based data or other benchmarks.

We also align to the 2019 UK Government Environmental Reporting Guidelines, including the requirements for Streamlined Energy and Carbon Reporting ('SECR'). We have reported the common intensity metric for the Water Industry, which is carbon (tCO₂e) per Ml of water, which is our tCO₂e divided by water into supply (Ml).

	2023/24 kWh	2024/25 kWh
Scope 1, 2 and 3 greenhouse gas emissions		
Energy consumption used to calculate emissions	222,414,764	227,076,053
	tCO ₂ e	tCO ₂ e
Scope 1		
Direct emissions from burning of fossil fuels	982	1,172
Process and fugitive emissions from water treatment works and refrigerants	1,943	2,022
Transport: company-owned or leased vehicles	2,070	2,050
Total Scope 1	4,995	5,244
Scope 2		
Grid electricity purchased	Location-based 45,053	45,847
	Market-based 39,500	82,594
Electric vehicles		4.33
Total scope 2	Location-based 45,053	45,851
	Market-based 39,500	82,598
Scope 3		
Category 1: Purchased goods and services	50,546	48,948
Category 2: Capital goods	31,236	25,650
Category 3: Fuel and energy-related activities	15,185	15,818
Category 4: Upstream transportation and distribution	321	486
Category 5: Waste generated in operations	10,053	9,158
Category 6: Business travel	227	237
Category 7: Employee commuting	836	898
Category 13: Downstream leased assets	197	97
Total Scope 3	108,602	101,294
Total annual net emissions (location-based)	158,650	152,389
Total annual net emissions (market-based)	153,097	189,136

	Kg CO ₂ e per Ml	Kg CO ₂ e per Ml
Intensity Ratio – Water Treated¹	145	146

¹ We state our emissions per mega litre of water treated. We include within this intensity metric Scope 1 and Scope 2 market-based emissions

For 2024/25 we have recorded an increase in scope 1 emissions due to increased use of generators for heating and to provide power to our operations.

Our Scope 2 location-based emissions have increased by 1.7%, which is in line with an increase of 1.7% in electricity purchased. Our market-based Scope 2 emissions are calculated using supplier specific emissions factors. From October 2023 we have been using our supplier's residual tariff as significant increases in the cost for 'green tariffs' in the UK mean we do not consider this offers customers good value for money. We are therefore reporting more Scope 2 market-based emissions than in 2022/23 and 2023/24. Alternative options for both purchasing and generating our own renewable energy remain under review as part of our Net Zero strategy.

For 2024/25, we recorded a decrease in Scope 3 emissions compared to 2023/24, driven primarily by reductions in category 1 (purchased goods and services), category 2 (capital goods), and category 5 (waste generated from operations). Category 1 and category 2 emissions fell by 3% and 18% respectively, despite a 13% increase in spend. This is likely due to updates to the Comprehensive Environmental Data Archive [CEDA], which we use to estimate emissions, or the use of more supplier-specific emissions factors.

The largest increase within our Scope 3 inventory was in category 4 (upstream transport and distribution), reflecting higher spend and mileage related to upstream courier services.

Our Scope 3 inventory provides important insights to help us better target emissions reduction initiatives and collaborate more effectively with our supply chain. In 2024, we launched a supplier engagement project to assess suppliers' carbon maturity and their ability to report Scope 1 and 2 emissions, supporting more accurate Scope 3 estimates. This programme will continue to expand into 2025, engaging a broader range of suppliers.

During 2024/25, we implemented energy efficiency schemes largely through our successful pump replacement programme. These projects have saved 1.4GWh this year. We have also generated 1.9GWh through our solar installations.

In 2024/25 we continued our electric fleet vehicle programme, with 25 electric vehicles in use by the end of 2024/2025, and 60 more to be delivered at the start of 2025/26. This represents 17% of our total fleet, and our aim is to have transitioned 90% of our fleet to electric vehicles by the end of 2029/2030. From 1 January 2025 we committed to not ordering any new petrol or diesel operational vehicles unless the transition of certain vehicle type is not supported by the technology. We also completed installation of charging infrastructure at several sites.

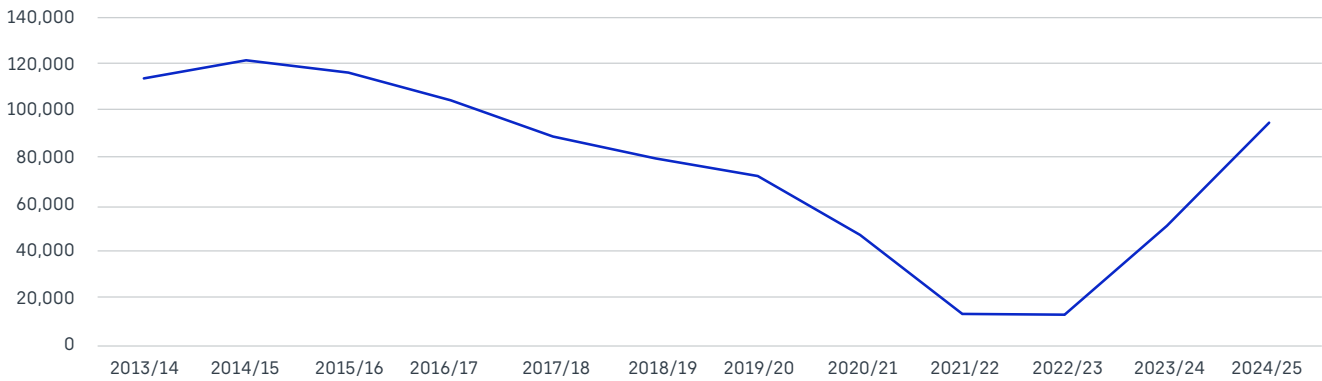
Progress towards Net Zero

In 2019, we joined other water companies in pledging to reach Net Zero operational emissions by 2030. The graph below shows a further rise in our reported emissions for 2024/25, continuing the upward trend from 2023/24. This increase is linked to our decision in October 2023 to pause the purchase of a specific 'green' electricity tariff. The cost of REGO-backed electricity had risen significantly, and we judged that continuing with the tariff no longer offered good value for our customers.

Despite this, we remain committed to reducing our direct emissions by improving energy efficiency and reviewing further opportunities for energy production. Our progress towards Net Zero will also depend heavily on how the UK electricity grid decarbonises and how accessible affordable renewable electricity becomes in the coming years.

We are currently reviewing our Net Zero strategy, including further consideration of our Scope 3 emissions, in line with the UK Government's wider Net Zero goals.

Net Zero by 2030 (Market Based) (tCO₂e)



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 2024/25, we paid £1.004 million into Ofwat's Innovation in Water Challenge, an industry-wide initiative to drive transformational change and better meet the evolving needs of customers, society, and the environment. In 2024/25, we have progressed nine projects supported by the fund, either as the leading organisation or a partner.

Affinity are leading the 'Water Neutrality at NAV Sites' project, which continues to extend water industry understanding of ways to reduce net water demand. With the project well over half completed, we are 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 eight further projects across a range of subjects, all of which have made notable progress in the year. 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. 'Managing Background Leakage' has used case studies in both Welsh Water and Affinity to further understanding of this important aspect of leakage. 'Mainstreaming Nature Based Solutions' has moved through the legal arrangement phase into detailed Scope definition and the "No-Dig Technology" project will identify the most effective approach of avoiding costly excavations whilst repairing mains. Moreover 'In-Situ GAC Renewal' will identify ways of avoiding the costly and time consuming need to take GAC off-site to renew.

Our final two partnerships in conjunction with most of the other water companies, are directly customer focused 'Stream' seeks to fulfil the upcoming Regulatory requirement for open data and data sharing, whilst

'Support For All' is exploring better ways of supporting our vulnerable customers through making the Priority Services Register provision more effective and efficient.

More information can be found regarding all of these projects at waterinnovation.challenges.org/.

Political contributions

No political contributions were made during the year (2023: £nil), in accordance with the company's policy of not making political contributions.

Financial instruments disclosures

Details are included within risk number 9 on page 54 of the Strategic Report and in note A4 of the Financial Statements.

Employee matters

We maintain a network of trained mental health first aiders within the business and continue to publicise our Employee Assistance Programme.

We aim to ensure that each employee or applicant for employment receives the same treatment irrespective of race, gender, disability, sexual orientation, religious belief, creed, and marital or parental status. This extends through all company policies, including recruitment where the candidate's particular aptitudes and abilities are consistent with the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Employees who become disabled while employed by the company are actively supported to maintain and/or find appropriate employment within the business.

Engagement with employees

We consult and inform our employees on all aspects of business performance through formal and informal consultation bodies, regular team meetings, email, and the intranet. We discuss ways to enhance and improve our communications and consultation channels directly with employees as well as with the Trade Unions to which a number of employees belong.

Employees are kept informed of changes in the business and general, financial, and economic factors influencing the company, together with performance targets. This is achieved through regular briefings or presentations and electronic mailings.

See page 36 for details in our Section 172(1) statement on how directors have engaged with employees.

Engagement with other stakeholders

See page 30 onwards for details in our Section 172(1) statement on how directors have engaged with suppliers, customers, and other stakeholders.

Future developments

Likely future developments in the business, resulting from expected changes in the regulatory and competitive environments that we operate in, are discussed in the Strategic Report.

Corporate governance

The company's statement on corporate governance, including information required by the Disclosure and Transparency Rules, can be found in the Corporate Governance Report on page 103 of this Annual Report and Financial Statements. This section forms part of this Directors' Report and is incorporated into it by cross-reference. We have reported our compliance with the Affinity Water Corporate Governance Code, which is available on our website at: affinitywater.co.uk/governance-assurance.

Events after the reporting period

There have been no post balance sheet events that require adjustment to or disclosure in the financial statements.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements.

This is based on assessment of the principal risks of the company and the other matters discussed in connection with the viability statement on pages 57 to 61, as well as consideration of the company's budgeted cash flows, short and long-term forecasts and ability to generate future revenues, covenant compliance related assumptions and available debt facilities. The company is forecast to remain compliant with all financial covenants, including the interest cover ratio [ICR].

The company has significant debt maturities (£102,676,000) and inflation swap maturities estimated at £106,000,000 that mature in July 2026. The directors have assessed existing cash balances and forecast cash flows, including the future receipt of the £150,000,000 equity injection (announced in February 2025) in the financial year ending 31 March 2026 and are satisfied that there is sufficient liquidity to meet these liabilities as they fall due. The equity injection is subject to a legally binding contract and is unconditional in nature, therefore the directors consider it appropriate to include this in their liquidity assessment.

To assess a severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a downside scenario that assumes a penalty, fine or one-off cost of £6,000,000 which would impact cash through either higher costs or lower revenue.

The severe but plausible downside scenarios is overlaid on the base case forecast, which is based on the Final Determination provided by our regulator in December 2024. The forecast has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, energy prices and the cost-of-living crisis. Based on this forecast 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. This is due to the fact that the company has no obligation to distribute funds through the holding company structure in order to meet such liabilities. Details of the company's cash and short-term investment are included in the statement of financial position on page 176, and undrawn committed borrowing facilities are included in note A4.

Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom or forecast covenant compliance.

Directors' qualifying third-party indemnity provisions

The company has not granted any indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Section 234 of the Companies Act 2006.

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice [United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law]. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed,

subject to any material departures disclosed and explained in the financial statements;

- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for safeguarding the assets of the company and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy, at any time, the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced, and understandable, and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the company's Auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

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

10 July 2025

Registered Office:

Affinity Water Limited
Tamblin Way
Hatfield
Hertfordshire
AL10 9SE





Financials

In this section

Independent Auditors' report	166
Income statement	174
Statement of comprehensive income	175
Statement of financial position	176
Statement of changes in equity	177
Statement of cash flows	178
Notes to the financial statements – accounting policies	179
Notes to the financial statements	184
Notes to the financial statements – appendices	204

[Overview](#)[Strategic Report](#)[Governance](#)[Financials](#)

Independent Auditors' report

[Read more on page](#)

166

Income statement

[Read more on page](#)

174

Statement of comprehensive income

[Read more on page](#)

175

Statement of financial position

[Read more on page](#)

176

Statement of changes in equity

[Read more on page](#)

177

Statement of cash flows

[Read more on page](#)

178

Notes to the financial statements – accounting policies

[Read more on page](#)

179

Notes to the financial statements

[Read more on page](#)

184

Notes to the financial statements – appendices

[Read more on page](#)

204

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 2025 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 2025; the Income statement, the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing [UK] ("ISAs [UK]") and applicable law. Our responsibilities under ISAs [UK] are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Context

The terms of the company's licence under the Water Industry Act 1991 require the company to report as if it had issued equity share capital listed on the London Stock Exchange and therefore the opinion below refers to the Listing Rules of the Financial Conduct Authority.

Our key audit matters for the year ended 31 March 2025 remain consistent with the year ended 31 March 2024, as set out in further detail below.

Overview

Audit scope

- The company has one finance function, with the audit being carried out by one team.
- In scoping our audit, with reference to our risk assessment, we identified and included all material financial statement line items within the scope of our audit procedures.

Key audit matters

- Accuracy of the measured income accrual
- Adequacy of loss allowance for trade receivables
- Assessment of cost capitalisation

Materiality

- Overall materiality: £4.3 million (2024: £3.6 million) based on approximately 0.2% of total assets (2024: approximately 3.5% of the earnings before interest, tax, depreciation and amortisation).
- Performance materiality: £3.2 million (2024: £2.7 million).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement [whether or not due to fraud] identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Accuracy of the measured income accrual	
Refer to page 120 - [Audit, Risk and Assurance Committee Report] and page 184 [note 1].	The measured income accrual is a manual calculation prepared using data from the Hi-Affinity billing system. We understood the methodology and ensured that it had been applied consistently with previous years. We also tested the mechanics of the spreadsheet used to calculate the measured income accrual.
A measured income accrual of £52.9 million (31 March 2024: £47.5 million) has been recognised relating to revenue from the provision of water services to metered household customers that had not been billed at the year end date.	In respect of the integrity of the data within Hi-Affinity, we tested the design and operating effectiveness of key controls within the revenue and receivables cycle, including the reconciliation of reports produced from the Hi-Affinity billing system and the revenue journals posted to the general ledger and the quarterly review of tariff changes made in the Hi-Affinity billing system.
The determination of the measured income accrual impacts directly on both reported revenue and profit. The measured income accrual accounts for the timing difference between the last meter reading and the estimated consumption of water from that point to the year end and is calculated based on the average consumption over the past two years by geographical groupings of customers.	We also validated the accuracy of the data within Hi-Affinity by agreeing a sample of meter readings to the system and tracing actual consumption to the bills raised. We have also validated the data used in the calculations by agreeing a sample of inputs used in the calculation back to Hi-Affinity.
Given the direct impact that this has to revenue and profit, as well as the range of assumptions used in calculating it, there is a risk that the measured income accrual and associated revenue could be materially misstated.	To assess the overall reasonableness of the accrual, we performed an independent roll forward of the accrual recognised at 31 March 2024 to calculate an expected accrual at 31 March 2025, reflecting the underlying changes in the number of metered customers, pricing tariffs, levels of water consumption and the timing of meter readings.
	In order to assess the ability of management to prepare appropriate estimates in respect of the measured income accrual, we evaluated the historical accuracy of the estimation process by comparing the bills raised through the year to the amount accrued at 31 March 2024. We also compared the billing subsequent to 31 March 2025 and extrapolated the difference identified against the remainder of the accrual.
	Based on the procedures performed, we did not identify any material misstatements. We also assessed the disclosures in respect of the measured income accrual and consider these to be appropriate.

Independent Auditors' report
to the members of Affinity Water Limited continued

Key audit matter	How our audit addressed the key audit matter
Adequacy of loss allowance for trade receivables Refer to page 120 [Audit, Risk and Assurance Committee Report], page 182 [accounting policies], page 195 (note 12) and page 210 (note A4). The loss allowance for trade receivables of £37.8 million (31 March 2024: £37.1 million) was calculated by applying a range of different percentages to trade receivables based on their respective ageing, with higher percentages applied to those categories of trade receivables which are considered to be of greater risk. Some customers have difficulty paying their bills or, in certain instances, choose not to pay them. As a result, given there are limited steps that a water company can take to recover debt from household customers, there is an ongoing risk of aged trade receivables not being collected. Given the quantum of trade receivables, and the range of assumptions used in preparing the loss allowance for trade receivables, there is a risk that this estimate could be materially misstated.	We reviewed the methodology for calculating the underlying loss allowance for trade receivables and ensured it had been consistently applied with the prior year and changes in methodology, where applicable, 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 2025 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 120 [Audit, Risk and Assurance Committee Report], page 183 [accounting policies], page 191 (note 6) and page 204 (note A3). The additions to assets in course of construction during the year amounted to £201.5 million (year ended 31 March 2024: £165.8 million). These additions arose as a result of the fact that the company capitalises expenditure with respect to its infrastructure assets where such expenditure enhances or increases the capacity of the network, or relates to material replacements of network components. The allocation of costs between capital and non-capital expenditure has a direct impact on profitability in any given year, specifically with respect to staff costs where allocation of costs is more judgemental. There is also a risk of completed assets not being appropriately transferred from assets in course of construction to the relevant asset categories. Given the magnitude of capital expenditure, there is a risk that incorrect classification could give rise to a material misstatement.	We reviewed the process for allocating costs to capital projects to check that this allocation was made on an appropriate basis and is in line with the company's capitalisation policy. We also performed a review of capital projects within assets in course of construction to understand the nature of the work being performed and the estimated completion dates of the projects. We then used this information to challenge, where appropriate, the accounting treatment of these projects as at 31 March 2025. We examined the process of capitalising staff time and tested a sample of staff costs capitalised to ensure that the amount capitalised related to valid capital projects. We also tested a sample of additions to assets in course of construction during the year to corroborate the amount and appropriateness of these assets being capitalised. Overall, we consider the costs capitalised as at 31 March 2025 to be materially appropriate. We also assessed the disclosures in respect of the capitalisation of costs and consider these to be appropriate.

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 by 2030 and all carbon emissions by 2045, 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 2025.

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	£4.3 million (2024: £3.6 million).
How we determined it	Based on approximately 0.2% of total assets (2024: approximately 3.5% of the earnings before interest, tax, depreciation and amortisation)
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. For the year ended 31 March 2024, a profit based measure was used but, for the reasons given above, we now consider the use of an asset based benchmark to be more appropriate. 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% (2024: 75%) of overall materiality, amounting to £3.2 million (2024: £2.7 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 £0.22 million (2024: £0.18 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;
- reviewing the equity commitment letter and assessing the intent and ability of the shareholders to fulfill this commitment, in doing so supporting the liquidity of the company 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 the year ended 31 March 2025 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 corporation 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 measured income accrual, loss allowance for trade receivables or 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 the measured income accrual and loss allowance for trade receivables; and
- identifying and testing journal entries posted, such as those with unusual account combinations, and incorporating an element of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may

involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or

- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Directors' remuneration

The company voluntarily prepares a Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Simon Bailey (Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Watford

10 July 2025

Income statement

for the year ended 31 March 2025

[Registered Number 02546950]

	Note	2025 £000	2024 [restated] £000
Revenue	1	363,595	347,651
Cost of sales		[298,099]	[299,689]
Gross profit		65,496	47,962
Administrative expenses		[42,813]	[38,994]
Impairment losses on financial and contract assets	2.1	[9,618]	[8,297]
Other operating income	2.2	20,168	21,104
Operating profit	2	33,233	21,775
Finance income	4	16,636	20,379
Finance costs	4	[78,255]	[90,501]
Fair value gain on inflation swaps	4	14,259	15,761
Fair value loss on interest swaps	4	[3,524]	-
Net finance costs	4	[50,884]	[54,361]
Fair value gain/[loss] on energy swaps		1,426	[13,075]
Loss before tax		[16,225]	[45,661]
Income tax (expense)/credit	5	[580]	10,798
Loss for the financial year		[16,805]	[34,863]

All results of the company in the current year and prior year are from continuing operations.

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with IAS 23. Further details are included on pages 180 and 181.

The notes on pages 179 to 220 are an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 March 2025

[Registered Number 02546950]

	Note	2025 £000	2024 [restated] £000
Loss for the financial year		[16,805]	[34,863]
<i>Other comprehensive income/(expense) for the year which will not be reclassified to profit or loss:</i>			
Re-measurements of post-employment benefit assets	10	[161]	[8,638]
Deferred tax credit on items that will not be reclassified	5	40	2,160
Other comprehensive expense for the year, net of tax		[121]	[6,478]
Total comprehensive loss for the year		[16,926]	[41,341]

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with IAS 23 and restated to correct the retirement benefit surplus. Further details are included on pages 180 and 181.

The notes on pages 179 to 220 are an integral part of these financial statements.

Statement of financial position as at 31 March 2025

[Registered Number 02546950]

	Note	2025 £000	2024 [restated] £000
Assets			
Non-current assets			
Property, plant and equipment	6	1,936,893	1,813,068
Right-of-use assets	7	6,580	7,153
Intangible assets	8	31,479	34,602
Investments	9	100	100
Retirement benefit surplus	10	49,746	47,505
Derivative financial instruments	11	21	1,127
Long-term financial receivable	17	1,000	-
		2,025,819	1,903,555
Current assets			
Inventories	13	5,794	4,451
Derivative financial instruments	11	955	493
Trade and other receivables	12	135,189	115,134
Short-term investments	9	80,795	21,552
Short-term financial receivable	17	1,793	-
Cash and cash equivalents	14	128,020	59,777
		352,546	201,407
Total assets		2,378,365	2,104,962
Equity and liabilities			
Equity			
Called-up share capital	15	30,506	30,506
Share premium account	15	1,400	1,400
Capital contribution reserve	15	30,150	30,150
Accumulated losses		[200,539]	[183,613]
Total equity		[138,483]	[121,557]
Liabilities			
Non-current liabilities			
Trade and other payables	16	342,426	329,690
Borrowings	17	1,595,703	1,359,485
Lease liabilities	18	4,412	3,974
Derivative financial instruments	11	132,742	126,364
Deferred tax liabilities	19	185,862	185,322
Provisions for other liabilities and charges	20	2,677	3,473
		2,263,822	2,008,308
Current liabilities			
Trade and other payables	16	245,671	206,227
Borrowings	17	128	-
Lease liabilities	18	2,333	3,343
Derivative financial instruments	11	253	1,119
Provisions for other liabilities and charges	20	1,163	4,100
Current tax liabilities		3,478	3,422
		253,026	218,211
Total liabilities		2,516,848	2,226,519
Total equity and liabilities		2,378,365	2,104,962

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with IAS 23 and restated to correct the retirement benefit surplus and net deferred tax liabilities. Further details are included on pages 180 and 181. The notes on pages 179 to 220 are an integral part of these financial statements. The statutory financial statements on pages 174 to 220 were approved by the Board of Directors and were signed and authorised for issue on 10 July 2025 on its behalf by:

Keith Haslett
Chief Executive Officer

Adam Stephens
Chief Financial Officer

Statement of changes in equity for the year ended 31 March 2025

[Registered Number 02546950]

Note	Called-up share capital £000	Share premium account £000	Capital contribution reserve £000	Retained earnings/accumulated losses £000	Total equity £000
Balance as at 1 April 2023	30,506	1,400	30,150	[159,756]	[97,700]
Prior year restatement - borrowing costs	-	-	-	6,768	6,768
Prior year restatement - deferred tax asset	-	-	-	10,716	10,716
Restated balance as at 1 April 2023	30,506	1,400	30,150	[142,272]	[80,216]
Loss for the year [restated]	-	-	-	[34,863]	[34,863]
Other comprehensive expense [restated]	-	-	-	[6,478]	[6,478]
Total comprehensive expense [restated]	-	-	-	[41,341]	[41,341]
Total transactions with owners recognised directly in equity	-	-	-	-	-
Balance as at 31 March 2024 [restated]	30,506	1,400	30,150	[183,613]	[121,557]
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]
Total transactions with owners recognised directly in equity	-	-	-	-	-
Balance as at 31 March 2025	30,506	1,400	30,150	[200,539]	[138,483]

The prior year has been restated due to an error in relation to accounting for borrowing costs in accordance with IAS 23 and restated to correct the retirement benefit surplus and net deferred tax liabilities. Further details are included on pages 180 and 181.

The notes on pages 179 to 220 are an integral part of these financial statements.

Overview

Strategic Report

Governance

Financials

Statement of cash flows

for the year ended 31 March 2025

[Registered Number 02546950]

	Note	2025 £000	2024 £000
Cash flows from operating activities			
Cash generated from operations	21.1	118,271	102,839
Interest paid		(53,408)	(49,274)
Net cash inflow from operating activities excluding deferred grants and contributions		64,863	53,565
Deferred grants and contributions		17,763	23,423
Net cash inflow from operating activities		82,626	76,988
Cash flows from investing activities			
[Investment]/realisation of short-term deposits		(59,243)	45,157
Purchases of property, plant and equipment		(164,321)	(155,866)
Proceeds from sale of property, plant and equipment		2,790	944
Purchases of intangible assets		(4,356)	(4,056)
Interest received		13,871	21,156
Net cash outflow from investing activities		(211,259)	(92,665)
Cash flows from financing activities			
Increase in borrowings		347,130	–
Principal elements of lease payments	18	(2,710)	(3,329)
Repayment of borrowings		(147,544)	–
Net cash inflow/[outflow] from financing activities		196,876	(3,329)
Net increase/[decrease] in cash and cash equivalents		68,243	(19,006)
Cash and cash equivalents at the beginning of the year		59,777	78,783
Cash and cash equivalents at end of year	14	128,020	59,777

The company has accounted for the acquisition and simultaneous sale and leaseback of its Hatfield head office as a financing arrangement, recognising the property as an owned asset and measuring the related liability at amortised cost. This is a non-cash transaction [refer note 17 for details].

The notes on pages 179 to 220 are an integral part of these financial statements.

Notes to the financial statements

accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention, modified by revaluation of financial assets and financial liabilities held at fair value through profit and loss, and in accordance with the Companies Act 2006 and Financial Reporting Standard 101: ‘Reduced disclosure framework’ [‘FRS 101’] as issued by the Financial Reporting Council.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as they believe that the company has adequate resources to meet its current operational and financial obligations, and the directors have a reasonable expectation that this will continue for the foreseeable future and for a period of at least 12 months from the date of approval of these financial statements.

This is based on assessment of the principal risks of the company and the other matters discussed in connection with the viability statement on pages 57 to 61, as well as consideration of the company’s budgeted cash flows, short and long-term forecasts and ability to generate future revenues, covenant compliance related assumptions and available debt facilities. The company is forecast to remain compliant with all financial covenants, including the interest cover ratio [ICR].

The company has significant debt maturities (£102,676,000) and inflation swap maturities estimated at £106,000,000 that mature in July 2026. The directors have assessed existing cash balances and forecast cash flows, including the future receipt of the £150,000,000 equity injection (announced in February 2025) in the financial year ending 31 March 2026 and are satisfied that there is sufficient liquidity to meet these liabilities as they fall due. The equity injection is subject to a legally binding contract and is unconditional in nature, therefore the directors consider it appropriate to include this in their liquidity assessment.

To assess a severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a downside scenario that assumes a penalty, fine or one-off cost of £6,000,000 which would impact cash through either higher costs or lower revenue.

The severe but plausible downside scenarios is overlaid on the base case forecast, which is based on the Final Determination provided by our regulator in December 2024. The forecast has taken into consideration the impact of inflation, interest rates, supply chain cost pressures, energy prices and the cost-of-living crisis. Based on this forecast 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. This is due to the fact that the company has no obligation to distribute funds through the holding company structure in order to meet such liabilities. Details of the company’s cash and short-term investment are included in the statement of financial position on page 176, and undrawn committed borrowing facilities are included in note A4.

Due to the nature of the regulated water company’s business, the directors consider it appropriate to place reliance on projected financials. There have been no events after the reporting period significantly affecting liquidity headroom or forecast covenant compliance.

Material accounting policy information

The material accounting policy information applied in the preparation of these financial statements are set out in note A3. These policies have been consistently applied to all the years presented, unless otherwise stated.

Adoption of new and revised standards

The company has applied the following standards and amendments for the first time for its annual reporting period commencing 1 April 2024:

Notes to the financial statements

accounting policies continued

- Classification of liabilities as current or non-current and non-current liabilities with covenants – Amendments to IAS 1: 'Presentation of financial statements';
- Lease liability in sale and leaseback – Amendments to IFRS 16: 'Leases' ['IFRS 16'];
- Supplier finance arrangements – Amendments to IAS 7: 'Statement of cash flows' and IFRS 7: 'Financial instruments: disclosures'; and
- International tax reform – Pillar two model rules – Amendments to IAS 12: 'Income taxes'.

The amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards, amendments and interpretations not yet adopted

There are no 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.

Disclosure exemptions

As permitted by FRS 101, the company has taken advantage of the following disclosure exemptions available under that standard in the preparation of these financial statements:

- Paragraph 38 of IAS 1: 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1: 'Presentation of financial statements';
 - paragraph 73(e) of IAS 16: 'Property, plant and equipment'; and
 - paragraph 118(e) of IAS 38: 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1: 'Presentation of financial statements':
 - 16 (statement of compliance with all IFRS); and
 - 38B-D (additional comparative information)
- Paragraphs 40A-D of IAS 1: 'Presentation of financial statements' in respect of prior year restatements
- Paragraph 17 of IAS 24: 'Related party disclosures' (key management compensation)
- The requirements in IAS 24: 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts.

Prior year restatements

Prior year restatements as a result of error

Capitalisation of borrowing costs

Management have assessed borrowing costs on qualifying assets and have now capitalised such costs in accordance with International Accounting Standard (IAS) 23: 'Borrowing costs' (IAS 23), having completed an assessment including the impact on prior years.

Retirement benefit surplus

The prior year retirement benefit surplus has been restated to correct for remeasurement experience adjustments on the present value of the defined benefit liabilities.

Deferred tax liabilities

The company's net deferred tax liabilities reflects this restatement.

Net deferred tax liabilities in the prior year have been restated due to a reassessment in recognising deferred tax assets in accordance with International Accounting Standard (IAS) 12: 'Income taxes' (IAS 12).

A summary of the financial statement line items affected by the restatements are included in the following table.

	31 March 2024 (as previously presented) £000	Adjustment due to capitalisation of borrowing costs £000	Adjustment due to pension correction £000	Adjustment due to deferred tax asset £000	31 March 2024 (restated) £000
Income statement (extract)					
Cost of sales	(299,356)	(333)	–	–	[299,689]
Operating profit	22,108	[333]	–	–	21,775
Finance costs	(94,112)	3,611	–	–	[90,501]
Loss before tax	[48,939]	3,278	–	–	[45,661]
Income tax credit	11,617	(819)	–	–	10,798
Loss for the year	[37,322]	2,459	–	–	[34,863]

	31 March 2024 (as previously presented) £000	Adjustment due to capitalisation of borrowing costs £000	Adjustment due to pension correction £000	Adjustment due to deferred tax asset £000	31 March 2024 (restated) £000
Statement of comprehensive income (extract)					
Loss for the year	[37,322]	2,459	–	–	[34,863]
Remeasurements of post-employment benefit assets	(27,443)	–	18,805	–	[8,638]
Deferred income tax on items that will not be reclassified	6,861	–	(4,701)	–	2,160
Other comprehensive income/(loss) for the year, net of tax	(20,582)	–	14,104	–	[6,478]
Total comprehensive loss for the year	[57,904]	2,459	14,104	–	[41,341]

	31 March 2024 (as previously presented) £000	Adjustment due to capitalisation of borrowing costs £000	Adjustment due to pension correction £000	Adjustment due to deferred tax asset £000	31 March 2024 (restated) £000
Statement of financial position (extract)					
Property, plant and equipment	1,800,958	12,110	–	–	1,813,068
Intangible assets	34,408	194	–	–	34,602
Retirement benefit surplus	28,700	–	18,805	–	47,505
Total assets	2,073,853	12,304	18,805	–	2,104,962
Accumulated losses	217,660	(9,227)	(14,104)	(10,716)	183,613
Deferred tax liabilities	(188,260)	(3,077)	(4,701)	10,716	[185,322]
Total liabilities	[2,229,457]	[3,077]	[4,701]	10,716	[2,226,519]
Total equity and liabilities	[2,073,853]	[12,304]	[18,805]	–	[2,104,962]

	31 March 2024 (as previously presented) £000	Adjustment due to capitalisation of borrowing costs £000	Adjustment due to pension correction £000	Adjustment due to deferred tax asset £000	31 March 2024 (restated) £000
Statement of cash flows and related notes (extract)					
Loss before tax	(48,939)	3,278	–	–	[45,661]
Depreciation	77,644	283	–	–	77,927
Amortisation of intangible fixed assets	7,592	50	–	–	7,642
Finance costs – net	57,972	(3,611)	–	–	54,361
Cash generated from operations	102,839	–	–	–	102,839

Notes to the financial statements

accounting policies continued

Critical accounting estimates

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Loss allowance of trade receivables and contract assets

The company makes an estimate of the recoverable value of trade receivables and contract assets and records a loss allowance based on experience (refer to note A3). This provision is based on, amongst other things, a consideration of actual collection history. At each reporting date, the company takes into consideration any significant economic changes that may impact its credit loss model and future credit losses. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. If collection rates improve or deteriorate by a value of 1%, the calculation for provision loss allowance will increase or decrease accordingly by £615,000 (2024: £800,000).

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed 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 operational emissions by 2030, and total Net Zero by 2045. 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 2025 is £1,936,893,000 (2024 restated: £1,813,068,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £1,362,290,000 (2024 restated: £1,299,254,000) and if they were 10% longer, the carrying amount would be £2,043,434,000 (2024 restated: £1,948,880,000).

Based on the current useful lives, the carrying amount of intangible assets, excluding goodwill, at 31 March 2025 is £16,518,000 (2024 restated: £19,641,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £15,305,000 (2024 restated: £17,228,000) and if they were 10% longer, the carrying amount would be £17,730,000 (2024: £22,051,000).

The above estimates have been calculated using the average useful life for each class of asset and assumes that the assets in each category are midway through their useful life.

Defined benefit pension plan

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, inflation, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions (refer to note A5) reflect historical experience and current trends and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants. There are no restrictions to the realisability of the surplus relating to the defined benefit section of the pension plan; therefore, no adjustment has been made to the retirement benefit surplus recognised in accordance with International Financial Reporting Interpretations Committee 14: 'The limit on a defined benefit asset, minimum funding requirements and their interaction'. A sensitivity analysis has been performed based on changing different assumptions. See note A5 for the impact of changes in assumptions used.

Critical accounting judgements in applying the entity's accounting policies

The preparation of financial statements also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity are disclosed below.

Revenue recognition

IFRS 15: 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 deferred grants and contributions in the statement of cash flows.

Cost capitalisation

The company capitalises expenditure on its infrastructure assets to property, plant and equipment where such expenditure enhances or increases the capacity of the network, or relates to material replacements of network components. Any expenditure classed as maintenance is expensed in the year it is incurred. Distinguishing between enhancement and maintenance expenditure is a subjective area, particularly when projects have both elements within them. 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 2024/25 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/about us/investorslibrary](https://affinitywater.co.uk/about-us/investorslibrary).

Notes to the financial statements

1. Revenue

1.1 Disaggregation of revenue from contracts with customers

	2025 £000	2024 £000
Timing of revenue recognition – at a point in time		
Unmeasured supplies	92,625	92,741
Measured supplies	200,398	182,958
Non-household wholesale revenue	64,517	62,656
Connection charges	627	712
	358,167	339,067
Timing of revenue recognition – over time		
Requisitioned mains/extensions	437	380
Diversions	3,010	6,146
Infrastructure charges	908	855
New connections	639	505
Other	434	698
	5,428	8,584
	363,595	347,651

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:

	2025 £000	2024 £000
Net trade receivables	43,230	43,753
Contract assets		
Unbilled accrual for metered customers – household customers	52,909	47,568
Unbilled accrual for metered customers – non-household customers	6,480	5,009
Contract liabilities		
Payments received in advance – household water supplies	61,983	54,306
Deferred income – other	539	496
Deferred grants and contributions	348,948	336,613
Payments received in advance – grants and contributions	10,830	12,896

‘Payments received in advance – grants and contributions’ in the table above relate to contributions received from developers where the asset is still work in progress and not yet being depreciated. Once the asset is complete, the contribution is moved from ‘payments received in advance – grants and contributions’ to ‘deferred grants and contributions’ and amortised, to ensure the accounting treatment is consistent.

Significant changes in contract assets and liabilities

Up to 31 March 2025, the company had been reimbursed £163,810,000 (2024: £159,660,000) 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, £5,405,000 (2024: £8,493,000) 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 2025, £4,335,583 (2024: £2,739,000) of payments received were included in payments in advance – grants and contributions.

1. Revenue continued

Recognition of trade receivables, contract assets and contract liabilities

For metered customers, a receivable is recognised when the customer is billed for the usage. At this point, the consideration is unconditional because only the passage of time is required before the payment is due. Where the company has provided the service before payment is due, an accrual for the consumption of water that has not yet been billed is recognised in the income statement and the company discloses this as a contract asset in the statement of financial position (see table on the previous page). Where the company has not provided the service before payment is due, deferred income is recognised and the company discloses this as a contract liability in the statement of financial position (see table on the previous page).

For unmetered customers, the customer pays a fixed amount determined by the transaction prices set out in the company’s charging scheme and tariff documents, irrespective of usage. If the payments received exceed the amount the company has the right to receive, the company recognises a payment received in advance and discloses this as a contract liability in the statement of financial position (see table on the previous page).

Where non-household retailers are billed monthly in advance for wholesale charges, as determined by billing/volume reports created by the market operator, the company recognises deferred income in relation to these accounts and presents this as a contract liability within trade and other payables. Where the company has not provided the service before payment is due, deferred income is recognised and the company discloses this as a contract liability in the statement of financial position (see table on the previous page).

Developers are billed for connection charges and contributions towards diversions and requisitioned mains/ extensions in advance of work being performed by the company. The company recognises these payments as being received in advance and discloses them as contract liabilities in the statement of financial position (see table on the previous page).

Developers are billed for infrastructure charges once the connection has been completed; a trade receivable is immediately recognised at this point as the consideration is unconditional. These receivables are included in net trade receivables in the table on the previous page.

The company does not incur any costs to obtain or fulfil contracts that would be recognised as an asset under IFRS 15.

Revenue recognised in relation to contract liabilities

The following table sets out how much of the revenue recognised in the current reporting year relates to carried forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year:

	2025 £000	2024 £000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Payments received in advance – household water supplies	54,306	48,500
Payments received in advance – non-household water supplies	–	591
Deferred income – water supplies	–	76
Deferred income – other	496	506
Deferred grants and contributions	5,428	8,584
Payments received in advance – grants and contributions	271	250
Revenue recognised from performance obligations satisfied in previous years		
Unbilled accrual for metered customers – household customers	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 2025, £348,948,000 (2024: £336,613,000) of grants and contributions is expected to be derived from performance obligations which were unsatisfied at the end of the reporting year.

In the prior year, there has been a change to the ‘Payments received in advance – grants and contributions’ balance and ‘Deferred grants and contributions’ to present more accurate balances.

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:

	2025 £000	2024 [restated] £000
Staff costs (note 3.1)	66,769	65,698
Energy costs	49,227	49,779
Profit on disposal of property, plant and equipment	(2,273)	(944)
Loss on disposal of infrastructure assets	502	1,154
Purchase of bulk water and water supplied under statutory entitlement	14,441	12,938
Water abstraction charges	6,267	6,345
Business rates	12,973	12,890
Chargeable services direct expenditure	102	(209)
Depreciation of infrastructure assets (note 6)	15,167	10,034
Depreciation of other property, plant and equipment (note 6)	62,004	67,893
Depreciation of right-of-use assets (note 7)	2,501	3,295
Amortisation of intangible assets (note 8)	7,479	7,642
Impairment of trade receivables and contract assets (note 12)	9,618	8,297
Chemicals and gases	7,076	6,742
Computer and telephone	9,055	8,087
Consultancy fees and fines	10,353	9,550
Infrastructure renewals expenditure	19,672	20,607
Insurance	7,673	8,423
Materials, equipment and supplies	6,472	5,588
Subcontracting	29,409	29,786
Vehicle costs	3,697	3,637
Research and development	204	205
Short-term lease rentals	5	5
Low-value lease rentals	84	80
Auditors' remuneration (note 2.3)	814	805
Cost of inventories used	1,915	1,913

Further details of the restatements are disclosed on pages 180 and 181.

2.2 Other operating income

	2025 £000	2024 £000
Timing of revenue recognition – at a point in time		
Commission and rentals	20,168	21,104

The majority of other income relates to commission earned by the company from billing and collecting charges in respect of sewerage and infrastructure within its area on behalf of Thames Water Utilities Limited and Anglian Water Services Limited (refer to note 23).

2. Operating profit continued

2.3 Auditors' remuneration

During the year the company obtained the following services from its Auditors and its associates:

	2025 £000	2024 £000
Fees payable to the company's Auditors and its associates for the audit of the financial statements	480	431
Fees payable to the company's Auditors and its associates for other services:		
Audit of the company's associates and subsidiaries	87	84
Audit-related assurance services		
– regulatory reporting	98	76
– Thames Water and Anglian Water annual returns	9	9
– audit-related assurance service – other	55	69
Other non-audit services	85	136
Total Auditors' remuneration	814	805

3. Employees

3.1 Employee benefit expense (including Executive Directors)

	2025 £000	2024 £000
Wages and salaries	82,213	77,013
Social security costs	8,299	7,681
Other pension costs	8,209	7,734
Staff costs	98,721	92,428
Staff costs capitalised	(31,952)	(26,730)
Staff costs recognised in the income statement	66,769	65,698

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	2025 Number	2024 Number
Operations	950	904
Customer service	265	258
Administration	247	268
	1,462	1,430

3.3 Directors' remuneration

Directors' emoluments were as follows:

	2025 £000	2024 £000
Aggregate emoluments	2,190	1,530

Aggregate amounts receivable under long-term incentive schemes (not share incentives) were £307,000 (2024: £nil), not included within aggregate emoluments above.

For Keith Haslett, £40,000 relates to the 2022/23 LTIP scheme which vested on 31 March 2025, and £211,000 relates to the 2023/24 and 2024/25 LTIP schemes which also vested on 31 March 2025. These amounts will be fully paid in July 2025.

For Adam Stephens, £56,000 relates to the 2024/25 LTIP scheme which vested on 31 March 2025, earned on a pro rata basis since his appointment on 1 January 2025. This amount will be paid in three equal instalments in July 2025, July 2026 and July 2027.

Notes to the financial statements continued

3. Employees continued

Neither the company nor its immediate parent entities has any listed shares and so the directors have not been offered any share incentives. The Non-Executive Directors who were appointed by Allianz Capital Partners on behalf of the Allianz Group, DIF and InfraRed Capital Partners Limited on behalf of HICL Infrastructure PLC did not receive any emoluments from the company, or any company within the Affinity Water Group.

3.4 Highest paid director

The highest paid director's emoluments were as follows:

	2025 £000	2024 £000
Aggregate emoluments	1,302	709

Aggregate amounts receivable under long-term incentive schemes (not share incentives) were £251,000 (2024: £nil), not included within aggregate emoluments. Of this total, £40,000 relates to the 2022/23 LTIP scheme which vested on 31 March 2025, and £211,000 relates to the 2023/24 and 2024/25 LTIP schemes which also vested on 31 March 2025. These amounts will be fully paid in July 2025.

The company made contributions of £24,000 to a pension plan in respect of the highest paid director's qualifying services during the year (2024: £45,000). 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 130 to 150.

4. Finance income and costs

	2025 £000	2024 (restated) £000
Finance income:		
Bank interest income	2,014	5,392
Net interest receivable on RPI linked inflation swap	6,200	6,381
Net interest receivable on CPI linked inflation swap	6,104	6,210
Net income from post-employment benefits	2,318	2,396
	16,636	20,379
Finance costs:		
Interest payable on borrowings held at amortised cost from parent company	(165)	(160)
Interest payable on borrowings held at amortised cost from subsidiary undertakings	(40,497)	(38,311)
Accretion payable in respect of interest on loans from subsidiary undertakings	(22,331)	(30,023)
Accretion payable on financial instrument	(18,234)	(24,577)
Interest payable on lease liabilities	(210)	(249)
Other	(2,108)	(792)
	(83,545)	(24,112)
Finance costs capitalised	5,290	3,611
Finance costs expensed	(78,255)	(90,501)
Fair value gain on financial instruments:		
Fair value gain on inflation swaps	14,259	15,761
Fair value loss on interest swaps	(3,524)	-
	10,735	15,761
Net finance costs	(50,884)	(54,361)

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 3.19% (2024: 3.19%).

Further details of the restatement are disclosed on pages 180 and 181.

5. Income tax [expense]/credit

5.1 Income tax [expense]/credit included in the income statement

	2025 £000	2024 (restated) £000
<i>Current tax:</i>		
– UK corporation tax on (losses)/profits for the year	-	-
Total current tax	-	-
<i>Deferred tax:</i>		
– Origination and reversal of temporary differences	(2,135)	9,615
– Adjustment in respect of prior years	384	1,183
– Impact of change in tax rate	1,171	-
Total deferred tax	(580)	10,798
Income tax [expense]/credit	(580)	10,798

Tax charge assessed for the year is higher (2024: tax credit is lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2025 of 25% (2024: 25%). The differences are explained below:

	2025 £000	2024 (restated) £000
Loss before tax	16,225	45,661
Tax calculated at the standard rate of tax in the UK of 25% (2024: 25%)	4,056	11,415
Tax effects of:		
– Adjustments in respect of prior years	384	1,183
– Expenses not deductible for tax purposes	(6,191)	(1,800)
– Impact of change in tax rate on deferred tax	1,171	-
Income tax [expense]/credit	(580)	10,798

5.2 Income tax [expense]/credit included in the statement of comprehensive income

	2025 £000	2024 (restated) £000
Deferred tax:		
- Origination and reversal of temporary differences on retirement benefit surplus	40	2,160
	40	2,160

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 (2024: 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

	2025 £000	2025 %	2024 [restated] £000	2024 %
Loss before tax	16,225		45,611	
Tax calculated at the standard UK tax rate of 25% [2024: 25%]	4,056	25%	11,415	25%
Tax effect of:				
Depreciation in excess of capital allowances	(4,442)	[27%]	(11,180)	[25%]
Pension movements	722	4%	632	1%
Provision movements	(120)	[1%]	82	0%
Other expenses not deductible for tax purposes	(216)	[1%]	(949)	[1%]
Reported current tax charge and effective rate	-	0%	-	0%
Depreciation in excess of capital allowances	(1,531)	[9%]	10,330	22%
Provision movements	(3)	0%	(83)	0%
Pension movements	(601)	[4%]	(632)	[1%]
Impact of change in tax rate	1,171	7%	-	0%
Adjustments to tax charge in respect of prior years	384	2%	1,183	3%
Reported deferred tax (charge)/credit and effective rate	(580)	[4%]	10,798	24%
Total tax (charge)/credit and effective rate	(580)	[4%]	10,798	24%

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 2024/25 the amount written off for tax purposes was lower than the depreciation in the accounts, resulting in a higher tax charge for the year.

Pension movements

Tax relief is given for the amount actually paid into the company's pension funds in the year, not the amount charged in the accounts. In 2024/25 the amount paid into the pension funds was higher than the amount charged in the accounts, resulting in a lower tax charge for the year.

Increase in provisions

Some provisions charged in the accounts are not deductible until the amounts provided are actually paid. Taxable profits in 2024/25 have been reduced by payments made in respect of provisions charged in previous years.

Other expenses not deductible for tax purposes

These will not reverse in future years, therefore the increase in the tax charge is permanent. Permanent dis-allowable expenses include fines, business entertaining and certain legal fees.

Impact of change in tax rate

This is a true up of temporary differences relating to contributions to mains, extensions and diversions which would unwind at the applicable corporation tax rate of 25%.

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 within 12 months after the year-end. The correction made to the tax return for the year ended 31 March 2024 resulted in a lower tax charge, mainly as a result of claiming capital allowances.

Prior year restatements

The prior year tax workings are restated to account for the prior year adjustments in relation to the capitalisation of borrowing costs, the adjustment to the retirement benefit surplus and the recognition of a deferred tax assets on unused tax losses brought forward, in line with disclosure in the financial statements. Further details of the restatement are disclosed on pages 180 and 181.

6. Property, plant and equipment

	Land, buildings and operational structures £000	Potable water distribution mains £000	Raw water pipes £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in course of construction [restated] £000	Total £000
Cost or deemed cost							
As at 1 April 2024	315,993	1,029,349	29,348	1,101,981	169,473	189,003	2,835,147
Prior year restatement due to error	472	6,899	-	5,702	68	-	13,141
Prior year restatement due to asset reclass	2,534	9,609	-	(19,660)	7,517	-	-
At 1 April 2024 [restated]	318,999	1,045,857	29,348	1,088,023	177,058	189,003	2,848,288
Additions	-	-	-	-	-	201,512	201,512
Transfers	27,821	47,596	161	60,140	20,764	(156,482)	-
Disposals	(180)	(584)	-	(12,895)	(25)	-	(13,684)
At 31 March 2025	346,640	1,092,869	29,509	1,135,268	197,797	234,033	3,036,116
Accumulated depreciation							
As at 1 April 2024	(115,712)	(114,783)	(3,674)	(737,391)	(62,629)	-	(1,034,189)
Prior year restatement due to error	(50)	(254)	-	(671)	(56)	-	(1,031)
Prior year restatement due to asset reclass	360	(386)	-	1,989	(1,963)	-	-
At 1 April 2024 [restated]	(115,402)	(115,423)	(3,674)	(736,073)	(64,648)	-	(1,035,220)
Charge for the year	(5,146)	(14,794)	(374)	(45,768)	(11,089)	-	(77,171)
Disposals	165	83	-	12,895	25	-	13,168
At 31 March 2025	(120,383)	(130,134)	(4,048)	(768,946)	(75,712)	-	(1,099,223)
Net book amount							
At 1 April 2024 [restated]	203,597	930,434	25,674	351,950	112,410	189,003	1,813,068
Movement in year	22,660	32,301	(213)	14,372	9,675	45,030	123,825
At 31 March 2025	226,257	962,735	25,461	366,322	122,085	234,033	1,936,893

All land and buildings are held as freehold.

Assets were reclassified between potable water distribution mains, fixed plant, vehicles and mobile plant and land, building and operational structures in this statutory note, as shown in the line "Prior year restatement due to asset reclass" within both cost and accumulated depreciation. This is a disclosure adjustment only with no impact on the net book amount.

Borrowing costs have been capitalised to fixed assets in line with IAS 23. There has been a restatement in the line "Prior year restatement due to error" in relation to the capitalisation in prior years.

Further details of these restatements is disclosed on pages 180 and 181.

7. Right-of-use assets

	Buildings £000	Vehicles £000	Total £000
Cost			
At 1 April 2024	9,079	13,197	22,276
Additions	–	4,032	4,032
Disposals	[9,079]	[1,928]	[11,007]
At 31 March 2025	–	15,301	15,301
Accumulated depreciation			
At 1 April 2024	[6,984]	[8,138]	[15,122]
Charge for the year	–	[2,501]	[2,501]
Disposals	6,984	1,918	8,902
At 31 March 2025	–	[8,721]	[8,721]
Net book amount			
At 1 April 2024	2,095	5,058	7,153
Movement in year	[2,095]	1,522	[573]
At 31 March 2025	–	6,580	6,580

Leasing arrangements

Lease income from operating leases where the company is a lessor is recognised in income on a straight-line basis over the lease term. Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate.

Although the company is exposed to changes in the residual value at the end of the current leases, the company typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the assets.

Minimum lease payments receivable on leases are as follows:

	2025 £000	2024 £000
Within 1 year	463	625
Between 1 and 2 years	423	463
Between 2 and 3 years	412	423
Between 3 and 4 years	368	412
Between 4 and 5 years	309	368
Later than 5 years	280	763
	2,255	3,054

Properties are held at cost in line with the property, plant and equipment policy provided in note A3.

8. Intangible assets

	Goodwill £000	Software (restated) £000	Total £000
Cost			
As at 1 April 2024	14,961	100,249	115,210
Prior year restatement due to error	–	336	336
At 1 April 2024 (restated)	14,961	100,585	115,546
Additions	–	4,356	4,356
Disposals	–	[3,107]	[3,107]
At 31 March 2025	14,961	101,834	116,795
Accumulated amortisation			
As at 1 April 2024	–	[80,802]	[80,802]
Prior year restatement due to error	–	[142]	[142]
At 1 April 2024 (restated)	–	[80,944]	[80,944]
Charge for the year	–	[7,479]	[7,479]
Disposals	–	3,107	3,107
At 31 March 2025	–	[85,316]	[85,316]
Net book amount			
At 1 April 2024	14,961	19,641	34,602
Movement in year	–	[3,123]	[3,123]
At 31 March 2025	14,961	16,518	31,479

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 2025. 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 £10,454,000 (2024: £7,580,000) of capitalised intangible assets under construction, which is not amortised. £1,483,000 (2024: £6,227,000) 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 no individually material computer software development costs in the years ended 31 March 2025 or 31 March 2024.

Further details of the restatement are disclosed on pages 180 and 181.

9. Investments

	2025 £000	2024 £000
Non-current assets		
Investments in subsidiaries (refer to note A6)	100	100
Current assets		
Short-term deposits	80,795	21,552

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.

Notes to the financial statements continued

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:

	2025 £000	2024 £000
Total current service cost of the Affinity Water Pension Plan	(1,583)	(1,695)
Pension expense charged to operating profit	(1,583)	(1,695)
Net pension interest income credited to finance income (note 4)	2,318	2,396
Net pension expense charged before taxation	735	701

The opening and closing retirement benefit surpluses included in the statement of financial position are summarised as follows:

	2025 £000	2024 (restated) £000
At 1 April	47,505	53,615
Principal employer contributions	1,667	1,827
Net current service cost (per above)	(1,583)	(1,695)
Net interest income	2,318	2,396
Net remeasurement gain/(loss)	(161)	(8,638)
At 31 March	49,746	47,505

Re-measurement gains and losses are recognised directly in the statement of comprehensive income and are summarised as follows:

	2025 £000	2024 (restated) £000
Remeasurement losses on plan assets	(35,193)	(19,955)
Remeasurement gains on plan liabilities	35,032	11,317
	(161)	(8,638)

Further analysis and underlying valuation assumptions of the defined benefit plan are provided in note A5.

Further details of the restatement are disclosed on pages 180 and 181.

11. Derivative financial instruments

	2025 £000	2024 £000
Non-current assets:		
Fair value of energy swaps	21	18
Fair value of CPI linked inflation swaps	–	1,109
Current assets:		
Fair value of energy swaps	955	493
	976	1,620
Non-current liabilities:		
Fair value and accretion of RPI linked inflation swaps	80,258	71,741
Fair value and accretion of CPI linked inflation swaps	48,960	54,529
Fair value of energy swaps	–	94
Fair value of floating interest swap	3,524	–
Current assets:		
Fair value of energy swaps	253	1,119
	132,995	127,483

Affinity Water has hedged wholesale energy prices since 2021 and we continue to assess requirements on an annual basis.

11. Derivative financial instruments continued

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 £210.0m, 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 £250.0m, were entered into between March 2020 and June 2020. Of these swaps, £100.0m are maturing in March 2030 and £150.0m 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 interest 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 (maturity September 2040), was also taken out in March 2025.

12. Trade and other receivables

	2025 £000	2024 £000
Current:		
Trade receivables	80,998	80,853
Less: loss allowance for trade receivables	(37,768)	(37,100)
	43,230	43,753
Amounts owed by group undertakings	12	29
Interest receivable from external parties	7,546	7,567
Other receivables	5,594	3,348
Unbilled accrual for metered customers	59,389	52,556
Prepayments and accrued income	19,418	7,881
	135,189	115,134

Trade receivables that were fully provided for were sold in both the current year and prior year, resulting in a reduction to trade receivables of £5,661,000 (2024: £5,100,000) 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.

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 2024 included a measured income accrual of £47,935,000. The value of billing recognised in the year ended 31 March 2025 for consumption in the prior year was £48,221,000.

This resulted in an increase of £286,000 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	
	2025 £000	2024 £000	2025 £000	2024 £000	2025 £000	2024 £000
At 1 April	37,100	36,968	220	303	37,320	37,271
Provision for receivables impairment charged to income statement	9,538	8,380	80	[83]	9,618	8,297
Sale of trade receivables that were fully provided for	[5,661]	[5,100]	–	–	[5,661]	[5,100]
Receivables written off during the year as uncollectable	[3,209]	[3,148]	–	–	[3,209]	[3,148]
At 31 March	37,768	37,100	300	220	38,068	37,320

See note A4 for details of the nature and the calculation of the loss allowance.

In the current year, a charge of £9,618,000 (2024: £8,297,000) 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 £5,014,000 (2024: £5,571,000) 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:

	2025 £000	2024 £000
Aged less than one year	35,159	36,143
Aged between one year and two years	16,043	15,494
Aged greater than two years	29,796	29,216
	80,998	80,853

13. Inventories

	2025 £000	2024 £000
Raw materials and consumables	5,794	4,451

Inventories are stated after provisions for impairment of £50,000 (2024: £50,000).

14. Cash and cash equivalents

	2025 £000	2024 £000
Cash at bank and in hand	48,020	40,366
Term deposits	80,000	19,411
	128,020	59,777

The carrying amounts of cash and cash equivalents approximate to their fair value.

15. Share capital, share premium and capital contribution reserve

	Number of shares [thousands]	Ordinary shares of £0.10 each £000	Share premium £000	Capital contribution reserve £000	Total £000
Allotted and fully paid-up					
At 31 March 2024 and 31 March 2025	305,058	30,506	1,400	30,150	62,056

All shares rank pari passu in all respects.

16. Trade and other payables

	2025 £000	2024 £000
Non-current		
<i>Amounts falling due after more than one year</i>		
Deferred grants and contributions	25,878	28,118
<i>Amounts falling due after more than five years</i>		
Deferred grants and contributions	316,548	301,572
	342,426	329,690
Current		
<i>Amounts falling due within one year</i>		
Trade payables	43,215	21,355
Amounts due to group undertakings	780	701
Interest payable to subsidiary companies	9,679	20,468
Commitment fees	85	38
Social security and other taxes	2,100	1,996
Other payables	13,246	10,659
Capital accruals	35,525	21,941
Deferred grants and contributions	6,522	6,923
Payments received in advance	84,529	73,700
Deferred income	2,817	3,149
Other accruals	47,173	45,297
	245,671	206,227
	588,097	535,917

The carrying amounts of trade and other payables approximate to their fair value. Interest payable to subsidiary companies relates to accrued interest on bonds.

In the prior year, a presentational reclassification of £9,224,000 was made between 'other payables' and 'payments received in advance' to better reflect the nature of the balances.

17. Borrowings

	2025 £000	2024 £000
Borrowings measured at amortised cost:		
Non-current		
Loan from Affinity Water Finance [2004] PLC financed by bond issue	103,032	251,395
Loan from Affinity Water Finance PLC financed by bond issue	1,470,305	1,104,506
Financial liability relating to leasehold property	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
	1,595,703	1,359,485
Current		
Financial liability relating to leasehold property	128	–
	128	–

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 company repaid £147,324,000 of the bonds during the 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%.

Financial liability relating to leasehold property

Sale and leaseback transaction

During the year, the company completed a transaction acquiring the freehold interest in its head office building in Hatfield for an amount of £16,103,000. At the same time, a sale and leaseback transaction of the property was entered into at an equivalent value. The transaction provides the company with a call option to reacquire the property at the end of the lease term in December 2045 for £1. The company has recognised the property in accordance with IAS 16: 'Property, Plant and equipment'.

The property will be held at cost of £16,472,000 which includes costs directly attributable to this transaction and this will be depreciated over its useful economic life of 40 years. The addition of the property is disclosed within the reconciliation of the carrying amounts of property, plant and equipment in note 6.

Neither the corresponding sale of the property or its leaseback have been recognised as a lease and have instead been recorded as a financing arrangement. The financial liability relating to leasehold property of £19,130,000, included in the above note consists of £15,630,000 relating to the office building and a further £3,500,000 for a capital contribution for qualifying expenditure. The financial liability relating to leasehold property is held at amortised cost using an effective interest rate to calculate the unwinding of the liability so that the final settlement is equal to the option price of £1 at the end of the term. At 31 March 2025, £707,000 of the capital contribution had been utilised on qualifying expenditure, with the remaining £2,793,000 being shown as a financial receivable split between current and non-current on the face of the statement of financial position. The company has derecognised the existing right-of-use asset and lease liability of the Hatfield property originally booked under IFRS 16.

The leasehold property is held at an effective interest rate of 7.81%.

The financial liability is secured as the rights to the leased asset revert to the lessor in the event of default.

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%.

17. Borrowings continued

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 2025 is £1,361,000,000 (2024: £1,199,706,000). The fair value of Class A bonds has been derived from 'level 1' fair value measurements: quoted prices (unadjusted) in active markets for identical liabilities. The fair value of Class B bonds has been derived from 'level 2' fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of Class B bonds is calculated by discounting expected future cashflows at a discount rate which is derived from the yield on comparable instruments which are observable in the market.

The company is subject to a number of covenants in relation to its borrowings, which, if breached, would result in its loans becoming immediately repayable. These covenants specify certain limits in terms of key ratios such as net cash flow to debt interest and net debt to RCV. At the year-end the company was not in breach of any financial covenants. See additional details on our financial covenants included within the going concern statement in accounting policies.

18. Lease liabilities

	2025 £000	2024 £000
Non-current:		
Lease liabilities	4,412	3,974
Current:		
Lease liabilities	2,333	3,343

The following amounts in respect of leases are included within these financial statements:

	2025 £000	2024 £000
Depreciation charge of right-of-use assets (refer to note 7)	2,501	3,295
Interest expense on lease liabilities (refer to note 4)	210	249
Expense relating to short-term leases (refer to note 2.1)	5	5
Expense relating to leases of low-value assets (refer to note 2.1)	84	80
Principal elements of lease payments included within cash flows from financing activities	2,710	3,329
Interest payments included within cash flows from operating activities	210	249
Total cash outflow for leases in the statement of cash flows	2,920	3,578
Additions to right-of-use assets (refer to note 7)	4,032	2,859
Carrying amount of right-of-use assets (refer to note 7)	6,580	7,153

19. Deferred tax liabilities

19.1 Analysis of deferred tax assets and deferred tax liabilities

	2025 £000	2024 (restated) £000
<i>Deferred tax assets:</i>		
– Deferred tax asset to be recovered after more than 12 months	(12,357)	(12,513)
– Deferred tax asset to be recovered within 12 months	(109)	(20)
	(12,466)	(12,533)
<i>Deferred tax liabilities:</i>		
– Deferred tax liability to be settled after more than 12 months	198,328	197,855
	198,328	197,855
Deferred tax liabilities – net	185,862	185,322

Notes to the financial statements continued

19. Deferred tax liabilities continued

The gross movement on the deferred tax account is as follows:

	£000
At 1 April 2023	206,738
Prior year adjustment- borrowing costs	2,258
Prior year adjustment-deferred tax asset on losses	(10,716)
At 1 April 2023 (restated)	198,280
Credited to the income statement (restated)	(10,798)
Credited to other comprehensive income (restated)	(2,160)
At 31 March 2024 (restated)	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

The 'charged to the income statement' line above includes an adjustment of £384,000 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.

An adjustment was made in the prior year to recognise a deferred tax asset of £10,716,000 due to a reassessment in recognising deferred tax assets in accordance with International Accounting Standard (IAS) 12: 'Income taxes' (IAS 12). The company's net deferred tax liabilities reflects this restatement.

Further details of the restatement are disclosed on pages 180 and 181.

The movement in deferred tax assets and liabilities during the year is as follows:

19.2 Deferred tax liabilities

	Accelerated capital allowances £000	Retirement benefit obligations £000	Total £000
At 1 April 2023	193,995	13,402	207,397
Prior year adjustment- borrowing costs	2,258	–	2,258
At 1 April 2023 (restated)	196,253	13,402	209,655
Credited to the income statement (restated)	(10,272)	632	(9,640)
Credited to other comprehensive income (restated)	–	(2,160)	(2,160)
At 31 March 2024 (restated)	185,891	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

19.3 Deferred tax assets

	Provisions £000	Other £000	Total £000
At 1 April 2023	(659)	–	(659)
Prior year adjustment- borrowing costs	–	–	–
Prior year adjustment-deferred tax asset on losses	–	(10,716)	(10,716)
At 1 April 2023 (restated)	(659)	(10,716)	(11,375)
Credited to the income statement	(1,158)	–	(1,158)
Credited to othe rcomprehensive income (restated)	–	–	–
At 31 March 2024 (restated)	(1,817)	(10,716)	(12,533)
Impact of change in tax rate	–	–	–
Charged to the income statement	67	–	67
Credited to other comprehensive income	–	–	–
At 31 March 2025	(1,750)	(10,716)	(12,466)

20. Provisions for other liabilities and charges

	Insurance £000	Other £000	Tax £000	Total £000
At 1 April 2023	2,649	670	4,100	7,419
Charged to the income statement (restated)	1,248	–	–	1,248
Utilised in the year (restated)	(1,094)	–	–	(1,094)
At 31 March 2024	2,803	670	4,100	7,573
Charged/[(credited)] to the income statement	2,271	–	(486)	1,785
Utilised in the year	(3,068)	–	(2,451)	(5,519)
At 31 March 2025	2,006	670	1,163	3,839

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 £2,006,000 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 period, a voluntary payment of £2,451,000 was made to HMRC. Additionally, a reduction of £486,000 was applied to the provision and recognised in the income statement, leaving a remaining balance of £1,163,000.

Other provisions

Other provisions of £670,000 (2024: £670,000) relate to unfunded pension liabilities for a former Non-Executive Director, which it is expected will be utilised by January 2051, and, therefore, presented as a non-current liability in the statement of financial position.

In the prior year, a presentational reclassification was made between 'charged to the income statement' and 'utilised in the year' to better reflect the nature of the balances.

21. Notes to the statement of cash flows

21.1 Cash generated from operations

	2025 £000	2024 (restated) £000
Loss before tax	(16,225)	(45,661)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment (note 6)	77,171	77,927
Depreciation of right-of-use assets (note 7)	2,501	3,295
Amortisation of grants and contributions	(5,428)	(8,584)
Amortisation of intangible assets (note 8)	7,479	7,642
Profit on disposal of property, plant and equipment	(2,273)	(944)
Loss on disposal of infrastructure assets	502	1,154
Post-employment benefits	(83)	(132)
Net finance costs (note 4)	50,884	54,361
Net (gain)/loss on energy swap	(1,426)	13,075
Changes in working capital		
– Inventories	(1,343)	382
– Trade and other receivables	(22,848)	(12,568)
– Trade and other payables		
– Provision element	(3,734)	154
– Other	33,094	12,738
Cash generated from operations	118,271	102,839

Notes to the financial statements

continued

21. Notes to the statement of cash flows

continued

Changes in working capital – trade and other receivables of £[22,848,000] in the year [2024: £[12,568,000]] primarily relates to an increase in unbilled accrual for metered customers, and a short-term cash payment in advance to Affinity Water Finance PLC for interest due to be settled during 2026.

Changes in working capital – trade and payables – other of £33,094,000 in the year [2024: £12,738,000] primarily relates to an increase in trade payables and an increase in current deferred grants and contributions. Further details of the restatement are disclosed on pages 180 and 181.

21.2 Reconciliation of liabilities arising from financing activities

	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	[147,554]	[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

	At 1 April 2023 £000	Cash flow £000	Non-cash flows £000	At 31 March 2024 £000
Loan from Affinity Water Finance [2004] PLC financed by bond issue	251,967	–	[572]	251,395
Loan from Affinity Water Finance PLC financed by bond issue	1,076,165	–	28,341	1,104,506
Loan from intermediate parent company	3,550	–	–	3,550
Lease liabilities	7,839	[3,578]	3,056	7,317
Debenture stock	34	–	–	34
Total liabilities arising from financing activities	1,339,555	[3,578]	30,825	1,366,802

Non-cash flows relate to loan indexation and amortisation of bond issuance costs and net additions of leases.

22. Commitments

22.1 Capital commitments

Capital expenditure contracted for at the end of the reporting year but not yet incurred is as follows:

	2025 £000	2024 £000
Property, plant and equipment	23,003	32,018
	23,003	32,018

The prior year comparative has been restated to reflect a more accurate assessment of capital commitments. Previously, the disclosure was based on an average estimate of project spend. The revised approach is based on a detailed review of contractual obligations and purchase orders, providing a more reliable representation of the company's committed expenditure.

22.2 Commitments under operating leases

The company leases its vehicles and head office building under non-cancellable leases expiring within a maximum of five years. The leases have varying terms, clauses and renewal rights.

22. Commitments

continued

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:

	2025 £000	2024 £000
No later than one year	54	45
Later than one year and no later than five years	111	1
	165	46

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 2025 [2024: £nil] and the company incurs no bad debt risk in relation to this service.

24. Events after the reporting period

There have been no 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.

The directors consider the following entities to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs:

- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure PLC
- Sun Life Financial Inc.

Allianz Capital Partners is the Allianz Group's in-house investment manager for alternative equity investments. The investment focus is on infrastructure and renewables as well as private equity funds. Allianz Capital Partners' investment strategy is targeted to generate attractive, long-term and stable returns, while diversifying the overall investment portfolio for the Allianz Group insurance companies.

DIF is an independent and specialist fund management company, which invests in infrastructure assets that generate long-term stable cash flows, including public-private partnerships, regulated infrastructure assets and renewable energy projects in Europe, North America and Australia. 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 transaction¹.

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 continued

A3. Material accounting policy information continued

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 (credit in the prior year) comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholder's funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholder's funds, respectively.

The current tax 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.

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.

A3. Material accounting policy information continued

Financial instruments

Financial instruments, such as derivatives, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured 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.

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.

Notes to the financial statements – appendices continued

A3. Material accounting policy information continued

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 remaining IT server space has been provided through a hosting service, therefore, it is out of scope of IFRS 16 as there is not a physically distinct identifiable asset. Costs are recognised on a straight-line basis as an expense in profit or loss.

The company applies recognition exemptions to short-term leases and leases of low-value assets. Short-term leases are leases with a term of 12 months or less. Low value assets comprise small items of office equipment and IT equipment, typically costing no more than £5,000. Costs are recognised on a straight-line basis as an expense in profit or loss. Leases falling within the scope of IFRS 16 are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The company's accounting policy is for assets and liabilities arising from a lease to be initially measured on a present value basis. Lease liabilities include the net present value of one or more of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising one or more of the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Lease payments may be discounted using the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be determined. The incremental borrowing rate is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The company uses an independent third-party to determine the incremental borrowing rate for each class of lease. The weighted average lessee's incremental borrowing rate applied to the lease liabilities during the year was 2.25%, reflecting the current high interest rates in the market as a result of the ongoing high levels of inflation. The incremental borrowing rate is redetermined annually and applied to new leases for the subsequent year.

A3. Material accounting policy information continued

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.

Remeasurement 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 49 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 2025, the company had £368,815,000 [2024: £238,329,000] of available liquidity, which comprised £208,815,000 [2024: £81,329,000] of cash and term deposits and £157,000,000 [2024: £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 £202,545,000 [2024: £235,338,000], 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:

	2025 £000	2024 £000
<i>Floating rate:</i>		
– Expiring within one year	57,000	57,000
– Expiring in more than one year	100,000	100,000
	157,000	157,000

The facilities expiring within one year comprise two standby facilities with one counterparty [2024: one counterparty] in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £29,000,000 [2024: £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 £28,000,000 [2024: £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 [2024: £60,000,000] provided by Barclays Bank PLC and £40,000,000 [2024: £40,000,000] provided by Lloyds Bank PLC. The facilities are intended for the purpose of financing capital expenditure and working capital requirements to the extent that additional funding is required and have a maturity date of July 2026 and 10 July 2027 respectively. These facilities were renewed on 24 June 2020 and 10 July 2024 respectively and use SONIA as the reference rate. Both contain embedded sustainability performance measures.

A4. Financial instruments and risk management continued

Maturity analysis

Additional risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to the company's non-derivative financial liabilities [borrowings and lease liabilities] with agreed repayment periods on an undiscounted basis.

	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
At 31 March 2025 Non-derivatives							
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	41,769
Lease liabilities	2,487	2,077	1,561	934	124	–	7,184
Total non-derivatives	58,036	160,525	51,592	51,170	50,554	1,943,912	2,315,789

	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
At 31 March 2024 Non-derivatives							
Loans from subsidiaries	40,274	40,479	290,616	26,177	26,447	1,335,313	1,759,306
Loan from intermediate parent	160	160	160	160	160	4,667	5,467
Lease liabilities	3,515	2,204	1,145	700	205	–	7,769
Total non-derivatives	43,949	42,843	291,921	27,037	26,812	1,339,980	1,775,727

The maturity profile in the following table represents the forecast future net cash flows in relation to the company's derivatives estimated using the forward rates applicable at the year-end.

	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
At 31 March 2025 Derivatives							
RPI linked inflation swaps net payment/ (receivable)	(6,001)	87,010	–	–	–	–	81,009
CPI linked inflation swaps 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

	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
At 31 March 2024 Derivatives							
RPI linked inflation swap net payment/ (receivable)	(6,174)	(5,989)	87,863	–	–	–	75,700
CPI linked inflation swap net payment/ (receivable)	(6,347)	(6,249)	(6,149)	(3,008)	(5,943)	95,591	67,895
Total derivatives	(12,521)	(12,238)	81,714	(3,008)	(5,943)	95,591	143,595

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 2025 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).

A4. Financial instruments and risk management continued

Credit risk continued

The loss allowance as at 31 March 2025 and 31 March 2024 was determined as follows for both trade receivables and contract assets (unbilled accrual for metered customers):

	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
At 31 March 2025								
Expected loss rate – metered household receivables	0.57%	–	6%	21%	37%	60%	100%	
Gross carrying amount – metered household receivables	–	[3,700]	21,438	6,141	3,416	2,060	2,580	31,936
Gross carrying amount – unbilled accrual for metered 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 (activity exhausted debtors)	–	–	83%	86%	86%	86%	86%	
Gross carrying amount - measured household receivables (activity exhausted 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	3,046	13,886
Loss allowance	301	–	4,395	4,428	3,806	3,355	5,626	21,910

	Current £000	Less than 1 year £000	1 – 2 years £000	2 – 3 years £000	3 – 4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – unmetered household receivables	–	15%	27%	43%	62%	100%	
Gross carrying amount – unmetered household receivables	[872]	8,180	4,257	2,402	1,619	2,123	17,710
Provision at expected loss rate	–	1,267	1,169	1,022	1,006	2,123	6,587
Expected loss rate – unmeasured household receivables (activity exhausted debtors)	–	84%	86%	86%	85%	85%	
Gross carrying amount - unmeasured household receivables (activity exhausted 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

Notes to the financial statements – appendices continued

A4. Financial instruments and risk management 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	–	–	45%	46%	74%	100%	
Gross carrying amount – unbilled accrual for metered customers (non-household)	6,480	–	–	–	–	–	6,480
Gross carrying amount – developer services	3,533	455	112	45	140	1,262	5,546
Loss allowance	–	–	50	21	103	1,262	1,435
Total loss allowance							38,068

	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
At 31 March 2024								
Expected loss rate – metered household receivables	0.46%	–	5%	16%	31%	52%	100%	
Gross carrying amount – metered household receivables	–	(606)	17,141	5,438	2,793	1,754	2,298	28,818
Gross carrying amount – unbilled accrual for metered customers (household)	47,768	–	–	–	–	–	–	47,768
Provision at expected loss rate	220	–	915	881	875	918	2,298	6,107
Expected loss rate – measured household receivables (activity exhausted debtors)	–	–	97%	97%	96%	96%	96%	
Gross carrying amount – measured household receivables (activity exhausted debtors)	–	–	2,841	4,165	3,561	2,593	3,715	16,875
Provision at expected loss rate	–	–	2,756	4,040	3,419	2,489	3,566	16,270
Loss allowance	220	–	3,671	4,921	4,294	3,407	5,864	22,377

A4. Financial instruments and risk management 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 – unmetered household receivables	–	9%	14%	25%	51%	100%	
Gross carrying amount – unmetered household receivables	(400)	6,327	3,850	2,549	1,243	1,778	15,347
Provision at expected loss rate	–	545	552	625	635	1,778	4,135
Expected loss rate – unmeasured household receivables (activity exhausted)	–	96%	96%	96%	96%	96%	–
Gross carrying amount – unmeasured household receivables (activity exhausted debtors)	–	1,715	2,041	1,749	1,533	2,952	9,990
Provision at expected loss rate	–	1,646	1,959	1,679	1,472	2,834	9,590
Loss allowance	–	2,191	2,511	2,304	2,107	4,612	13,725

	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		–	43%	22%	75%	100%	
Gross carrying amount – unbilled accrual for metered customers (non-household)	5,009	–	–	–	–	–	5,009
Gross carrying amount – developer services		7,871	904	243	106	698	9,822
Loss allowance	–	–	386	55	80	698	1,219
Total loss allowance							37,320

There has been a change in the presentation of the prior year loss allowance maturity analysis to present the balance more accurately.

A reconciliation between the opening and closing loss allowances for trade receivables and contract assets for the year ended 31 March 2025 is shown in note 12.

At 31 March 2025 and 31 March 2024, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

	2025 £000	2024 £000
Cash and term deposits (note 14)	128,020	59,777
Short-term deposits (note 9)	80,795	21,552
Trade and other receivables (excluding prepayments and amounts recoverable from the company's insurer)	128,204	109,747
	337,019	191,076

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.

A4. Financial instruments and risk management continued

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:

	2025 £000	2024 £000
AAA	80,000	19,411
A-1+	40,709	21,551
A-1	85,112	37,062
A	–	–
	205,821	78,024

These are all short-term ratings.

Interest rate and inflation risk

The company seeks to manage its interest rate risk by maintaining its exposure within a Board-approved range, primarily through using a mixture of fixed, inflation-linked and floating rate borrowings. A series of RPI linked inflation swaps with a total nominal value of £210.0m, linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), were entered into between August 2018 and October 2020. A series of CPI linked inflation swaps with a total nominal value of £250.0m, linked to the maturity of the Class A fixed rate £250.0m bond (March 2036), were entered into between March 2020 and June 2020. A series of floating rate interest swaps with a total nominal value of £350.0m, linked to the maturity of the Class A fixed rate £350.0m 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 2025	871,220	475,657	248,955	1,595,832
31 March 2024	656,078	459,578	243,829	1,359,485

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 2025. 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	2025 £000	2024 £000
1% increase in RPI	(4,836)	(4,605)
1% decrease in RPI	4,836	4,605
1% increase in CPI	(5,483)	(5,334)
1% decrease in CPI	5,483	5,334
1% increase in SONIA	(2,960)	-
1% decrease in SONIA	2,960	-

A4. Financial instruments and risk management continued

Energy price risk

The company is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the company to volatility in its operating cash flows. The company has mitigated this risk by fixing the price on all its anticipated electricity usage out to the end of AMP7 through entering into electricity swap contracts.

Currency risk

The company has no material net exposure to movements in currency rates.

Capital risk management

The gearing policy approved by the Board is a target measured as net debt (as defined in the company's WBS documentation, refer to table 1E of the company's regulatory Annual Performance Report) to RCV, of 80%. This allows sufficient headroom within the company's financial covenants, which are triggered at a level of more than 90%. The company's gearing on this basis was 77.5% at 31 March 2025 (74.6% at 31 March 2024).

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 investment '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.

Notes to the financial statements – appendices

continued

A5. Retirement benefits

continued

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%, increasing from 95% in November 2024 [with the previous change in hedging level having taken place in January 2024, which was an increase from 93.5%].

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.

Based on the current Schedule of Contributions, the contributions expected to be paid by the company into the AWPP for the year ending 31 March 2026 are £700,000 (£1,600,000 in the year ended 31 March 2025, although this expectation was dependent on the outcome of the actuarial valuation as at 31 December 2023 being undertaken at that time).

The weighted average duration of the defined benefit obligation is 11.8 years (2024: 13 years).

Defined benefit section – financial and demographic assumptions

Adjustments to actuarial valuations have been made based on the following assumptions:

	2025	2024
Discount rate	5.75% pa	4.80% pa
Salary growth	3.10% pa	3.15% pa
RPI	3.05% pa	3.15% pa
CPI	2.60% pa	2.65% pa
Life expectancy for a male pensioner from age 65 (years)	21.5	21.8
Life expectancy for a female pensioner from age 65 (years)	23.6	23.9
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	23.0	23.1
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	25.2	25.8

Deferred pensions are revalued to retirement age in line with the CPI assumption of 2.60% per annum (2024: 2.65% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

Defined benefit section – sensitivity analysis

The below sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit asset to significant actuarial assumptions, the same method (present value of the defined benefit asset calculated using the projected unit credit method at the end of the reporting year) has been applied as when calculating the pension asset recognised within the statement of financial position.

A5. Retirement benefits

continued

	Change in assumption	Impact on defined benefit obligation	Change in assumption	Impact on defined benefit obligation
2025				
Discount rate	0.5% decrease	5.8% increase	0.5% increase	5.3% decrease
Salary growth	0.5% decrease	0.5% increase	0.5% increase	0.4% decrease
Pension growth rate	0.5% decrease	4.5% increase	0.5% decrease	4.2% decrease
Life expectancy	1 year increase	4% increase	1 year decrease	4.0% decrease
2024 (restated)				
Discount rate	0.5% decrease	6.5% increase	0.5% increase	5.8% decrease
Salary growth	0.5% increase	0.5% increase	0.5% decrease	0.5% decrease
Pension growth rate	0.5% increase	4.8% increase	0.5% decrease	4.7% decrease
Life expectancy	1 year increase	4.0% increase	1 year decrease	4.0% decrease

Further details of the restatement are disclosed on pages 180 and 181.

Defined benefit section – net retirement benefit surplus

At 31 March, the fair values of the plan's assets recognised in the statement of financial position were as follows:

	Plan assets %	2025 £000	Plan assets %	2024 (restated) £000
Equity securities	7%	23,098	6%	21,358
Debt securities	67%	226,580	60%	221,933
Infrastructure	1%	1,417	1%	2,039
Liability driven investments	19%	64,200	29%	111,826
Cash and cash equivalents	6%	20,572	4%	13,183
Total fair value of the plan's assets	100%	335,867	100%	370,339
Present value of defined benefit obligations		(286,121)		(322,834)
Net retirement benefit surplus		49,746		47,505

The total of assets which are quoted is £195,823,000 (2024: £326,049,000) and the total of assets which are unquoted is £140,044,000 (2024: £44,290,000).

Further details of the restatement are disclosed on pages 180 and 181.

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 2024/1 April 2023 (restated)	370,339	387,699
Benefits paid	(18,450)	(17,748)
Principal employer contributions	1,667	1,827
Contributions by plan participants	123	207
Interest income	17,381	18,309
Remeasurement losses	(35,193)	(19,955)
At 31 March 2025/31 March 2024	335,867	370,339

Notes to the financial statements – appendices

continued

A5. Retirement benefits

continued

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 2024/1 April 2023	[322,834]	(334,084)
Benefits paid	18,450	17,748
Contributions by plan participants	[123]	(207)
Net current service cost	[1,583]	(1,695)
Interest expense	[15,063]	(15,913)
Remeasurement gains/(losses)	35,032	11,317
At 31 March 2025/31 March 2024	[286,121]	(322,834)

Further details of the restatement are disclosed on pages 180 and 181.

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 2025 was £5,116,000 (2024: £4,662,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2025 (2024: £nil).

A6. Subsidiaries

Name of company	Country of registration/ incorporation	Registered address	Nature of business	Type of holding	Proportion of voting rights and shares held
Affinity Water Finance (2004) PLC	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Financing company	Ordinary shares	100%
Affinity Water Finance PLC	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Financing company	Ordinary shares	100%
Three Valleys Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%
Tendring Hundred Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%
Folkestone and Dover Water Services Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%
White Cliffs Water Limited	United Kingdom	Tamblin Way, Hatfield, Hertfordshire AL10 9EZ	Dormant company	Ordinary shares	100%

The company has an investment of £50,000 in 100% of the £1 ordinary shares of a subsidiary company, Affinity Water Finance (2004) PLC. The principal activity of Affinity Water Finance (2004) PLC, incorporated in the United Kingdom, is to raise finance for the company. It made a profit of £1,000 for the year ended 31 March 2025 (2024: £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 2025 (2024: £7,000), relating to bond management fees charged to Affinity Water Limited.

The four dormant subsidiaries listed above file accounts at Companies House.

A7. Related party transactions

Purchases of goods and services

Related party	Nature of relationship	In respect of	2025		2024	
			Value £000	Balance £000	Value £000	Balance £000
Allianz Insurance	Common ownership	Insurance	62	[62]	58	[31]

See note 3.3 for disclosure of the directors' remuneration.



The production of this report supports the work of the Woodland Trust, the UK's leading woodland conservation charity. Each tree planted will grow into a vital carbon store, helping to reduce environmental impact as well as creating natural havens for wildlife and people.