Affinity Water

Taking care of your water

Annual Report and Financial Statements for the year ended 31 March 2022

Affinity Water Limited
(Registered Number 02546950)

Welcome to the Affinity Water Annual Report & Financial Statements 2021/22

Our purpose

We supply high-quality drinking water and take care of our environment, for our communities now and in the future.

About us

We are the largest water-only supply company in the United Kingdom, owning and managing water assets and network in an area of approximately 4,500km² across three supply regions in the South East of England.

936ml
Daily amount of drinking water supplied
950ml in the prior year

3.86m
Customers served
3.83m in the prior year

1.48m
Household properties connected
1.47m in the prior year

Revenue
£319.7m
£286.8m in the prior year

16,900km
Length of mains network
16,800km in the prior year

1,407
Number of employees (excluding directors)
1,407 in prior year

91
Number of water treatment works
93 treatment works in prior year

Operating profit
£34.6m
£11.9m in the prior year

£1.48bn
Our Regulatory Capital Value (RCV)
£1.30bn in prior year

£1.44bn
Planned AMP7 investment

Net loss (after tax)
£96.9m
£43.1m in the prior year

Affinity Water

Taking care of your water

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 the South East of 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 that 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 has 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.

Over the last few years, we've redefined what we want Affinity Water to mean to our people and the communities we serve.

In 2020, we defined our purpose as 'to provide high quality drinking water and take care of our environment, for our communities now and in the future'.

This led us to a simple framework that defines three clear things we want everyone to know about Affinity Water. We call these our 'brand genes'.

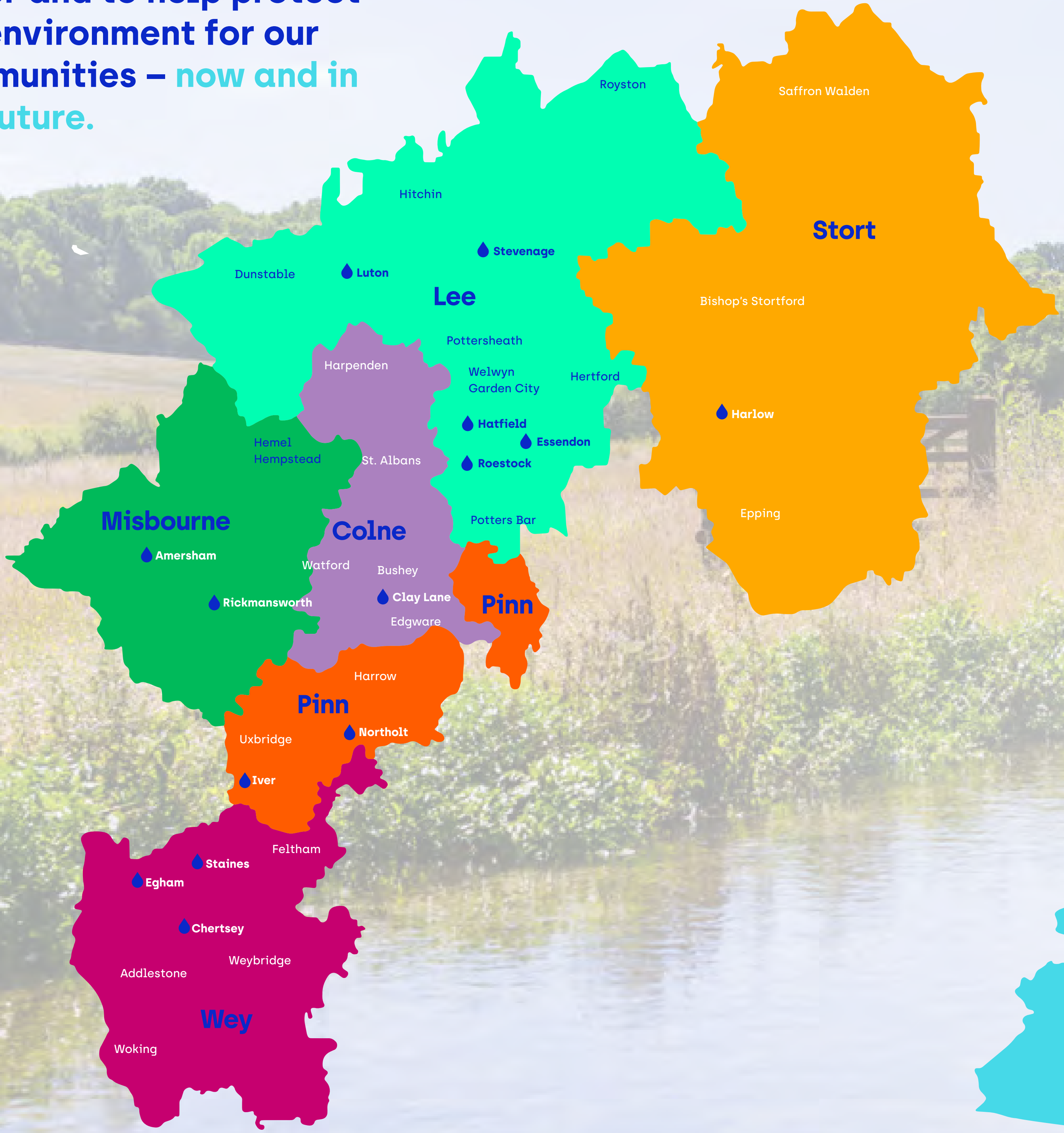
Everything we do can be seen through the lens of our brand genes. These help to guide our people, the activities we carry out and how we work with communities to ensure we continue to deliver a long-term, sustainable supply of water.

We are

Contents

Where we operate

We are focused on providing a high-quality supply of water and to help protect our environment for our communities – now and in the future.



Why our supply area is unique

We're focused on building our resilience and providing a long-term sustainable supply of high-quality water, while protecting our environment for our communities – now and in the future.

- 10% of all globally rare chalk streams are in our supply area
- Around 60% of water is sourced from groundwater

- We currently have the highest demand for water in the country per person at 157 litres per day, on average (compared to a national average of 145 litres)
- Population growth, demand for water, climate change and the need to leave more water in the environment means we are working increasingly closely with customers to use water better

- We have a diverse customer base with equally diverse needs. We supply dense urban communities, and rural ones too.
- One of the most densely populated, economically active regions in the UK in an area considered to be water stressed

We're the largest water-only supply company in the UK, owning and managing the water assets and network in an area of approximately 4,500km² across three supply regions in the South East of England.

We sub-divide our supply regions into eight different communities, based on our existing water resource zones – each named after a local river – which allows us to tailor a high-quality service to customers at a local level.

What do we want to be known for?

Whether they're customers, employees or stakeholders, our three brand genes highlight the three things we want everyone to know about Affinity Water

Stewards of the local environment

Our region is like nowhere else in the world. It's home to some of the world's most endangered chalk streams. They're rarer than the Bengal Tiger and they're in danger of drying up, because we rely on chalk groundwater for the water we all use.

But, too much is being wasted. To save our streams from the brink means we need change. It's why we've committed to ending unsustainable abstraction from chalk groundwater and working to restore rivers. We're driving down leakage and working with customers to reduce water waste. Because our rivers and streams belong to all of us and it's our job to help look after them.

Our aspiration

- To provide a long-term sustainable supply of water through reducing leakage, reducing demand and bringing online new sources of water
- To take care of the environment through ending unsustainable abstraction from chalk groundwater sources, working with our communities to restore rivers and improve biodiversity in our supply area.
- Achieve net zero carbon from operations by 2030

Helping customers use water better

Water is everywhere in our lives and it's easy to take it for granted. But if we don't all pay attention to our water use, it means our bills go up and our local streams dry up.

We know looking after our streams for the future, means doing our part to protect them today.

So with over a century's worth of expertise and a commitment to innovation, we're modernising our local infrastructure and giving customers the tools and information they need, so that every single one of us can use water better.

Our aspiration

- We aim to reduce individual daily water use by 12.5% by 2025 through metering and inspiring our customers to use less through our award winning 'Save Our Streams' campaign
- We'll continue to work with government, regulators and across sectors to campaign for the changes we need to make saving water simpler

Giving customers an exceptional experience

We're a local company, which means we don't just serve our customers. We live with them.

They're our friends, families and our neighbours, which means good enough is never enough.

We do our job, and we do it well. But we're always asking how we can do more to give our customers an exceptional experience and be a part of local life.

Our aspiration

- We'll continue to produce high-quality affordable water
- We will improve our customer experience through investing in digitisation and customer service
- We'll continue to drive down disruption for our communities by using the latest methods and technology to keep water flowing
- We'll support more customers who are struggling to pay, and provide extra support to vulnerable customers through our Priority Services Register.
- We'll continue to invest in building our brand to increase awareness of who we are and what we do.

Our principles are fundamental values that underpin everything we do

Each person at Affinity Water is guided by our principles – doing the right things for customers and delivering against our commitments and promises. .

Be proactive

We want to exceed expectations. We continue to build relationships, learn from others and innovate to find solutions.

Make it easy

We want to keep it simple for customers, and be agile to their needs.

Show you understand

We aim to communicate with authenticity, clarity and passion.

Show you care

We want to engage the hearts and minds of customers, and take care of the environment – for our communities now and in the future.

Do what you say you will

We aim to deliver on our commitments and promises to customers.

See how our principles align with our purpose, values and strategy on **pages 12 and 13**

Our Report

Alignment of culture with purpose, values and strategy

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

Read more about alignment of culture with purpose, values and strategy on page 12

Our business model

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

Read more about our business model on page 22

Our external environment

We're tackling the environmental challenges to create a sustainable future

Read more about our external environment on page 44

Our stakeholders

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

Read more about our stakeholders on page 52

Our strategy

We're planning to innovate and invest so we can build for a different world

Read more about our strategy on page 54

Principal risks and uncertainties

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

Read more about principal risks and uncertainties on page 98

Chair's welcome

> Affinity Water and other water companies are looking beyond being a steward of the pipes and pumps in their respective regions to become custodians of the wider national infrastructure, which is critical to safeguard public supplies and the broader environment under threat by demographic and climate change."

Read the Governance introduction by the Chair on page 122

A view on the water industry

In setting the context for this report, I would like to start by highlighting one of the key issues facing the water industry today. It owns and uses major assets and infrastructure that require continual investment overseen through the regulatory process, to keep them fit for the future.

While there is much that can be achieved in the short term to improve productivity and service through innovation and technology, inevitably long-term investment is required for the benefit of future generations. Investing for the future at a time of rising cost of living creates real tension. Its impact on the communities we serve is something of which we are acutely aware. So it is important that, while we continue to invest, we also support those most in need and I'm pleased that our teams at Affinity Water have embraced partnership working across sectors to raise awareness of our support services amongst hard-to-reach groups.

In addition, water is a national issue and not one that is ultimately seen as a company by company or region by region problem. Water companies must be a part of creating a national infrastructure. As we move into the next price review planning period for PR24 and develop water resources management plans, it is correct that the emphasis should be on coordinating resources, through the mechanisms Ofwat has set up. To this effect, Affinity Water has been working very closely with other water companies across regions for a number of years, such as Water Resources South East, Water Resources East and Water Resources West. In January 2022, Water Resources South East published the first ever regional water resources plan consultation, which highlighted the action we must take collectively to ensure a long-term sustainable supply of water that is resilient to the effects of climate change and meets the demands of a growing population. The plan includes a number of options to address future challenges and highlights the need for new infrastructure, such as reservoirs and increasing our ability to move water around the country more efficiently. We are already taking steps on this and

Chair's welcome continued

> One of our key priorities is increased clarity on the investment we will need to make, not just in the next five years, but in the next 25 years."

will be launching a new conditioning facility at our treatment works in Sundon by 2025. This will allow us to take more water from a reservoir operated by Anglian Water and reduce our reliance on chalk groundwater in the Chilterns. We are targeting to reduce abstraction from groundwater by 27 million litres a day (Ml/d) in this regulatory period, AMP7, taking our total abstraction reduction to almost 100 Ml/d since the 1990s.

This is an incredibly important step. It means Affinity Water and other water companies are looking beyond being a steward of the pipes and pumps in their respective regions to become custodians of the wider national infrastructure that is critical to safeguard public supplies and the broader environment under threat by demographic and climate change. In our case, we want to help protect our globally rare chalk streams. New infrastructure and reducing leakage is critical to that goal. However, these things in isolation will not get us to where we need to be. Using water wisely is something that we are all responsible for, and we need to support and encourage customers to play their part too. To earn the right to be an ambassador for change, we need to demonstrate to our customers we are meeting our performance commitments. Our region has the highest per capita consumption in the country and the most-limited natural sources of water, so we need to be a catalyst to change behaviour in how society understands and uses water.

To reduce the water taken out of the chalk streams, we need to plan adaptively and over the long term. How, for instance, do we create the inter-regional networks and other infrastructure that will allow this, if consumers choose not to reduce their consumption, and with the population growing? Asking people to use less water is critical, but the marginal cost of water is low, so mechanisms such as meters and tariffs will only take us so far, particularly in relatively wealthy communities. It becomes a moral responsibility, asking people to use less water as part of a broader societal picture – although dealing with matters like leakage is part of winning the hearts and minds. It requires organisations, customers and government to work together if we are to achieve our long-term objective of 110 litres per person per day. Legislation will be required on water fittings, water consumption in new housing and the volume of water used by white goods.

Company performance

Over the year, we have made very clear progress towards our targets and, although we have not achieved them all, there is a clear trajectory towards delivering them over our Business Plan 2020 – 2025 period, giving us a firm foundation for PR24.

While fulfilling our environmental responsibilities is the 'day job', it is worth noting that we have made good progress on our work to manage our chalk streams, and we are close to finalising a practical plan to become a net zero business.

On the social responsibility side, the health, safety and wellbeing of our people is a top priority. We have made tangible progress in wellbeing with a particular focus on mental health. With the cost of living crisis we are exploring ways we can further support our people. In the last year we have focused on the culture of safety in the business, building on the policies, procedures and working practices that underpin safety. Progress has been made in our approach to diversity and inclusion with actions and plans set to evolve this over time. Plus, as I mentioned, there is an emerging sense of how Affinity Water has a role as a community business and that starts with how we take care of our own people as well as the wider population in our region.

The Board

The Board has had to make some very difficult decisions over the past year to ensure we had the right leadership in place to take us to PR24 and beyond. With the appointment of a new interim Chief Executive and senior management team, I am confident this has been the right decision to get us to where we need to be on performance, for PR24 and the longer term.

As for day-to-day matters, this Board has always been good at getting out and seeing the business and meeting people. For the past two years this has not been so easy, and we have not done as much as we would like to have done. But in the coming year, we are very much looking forward to getting around the business and our communities much more, both as a Board and as individuals. Furthermore, the non-executive directors have been engaged in the planning and customer engagement process for PR24 and in the development of our Strategic Direction Statement and our longer-term investment plans and will continue to do so over the next year and beyond.

Our people

Our employees are delivering a critical public service, and they do it with a sense of commitment to the community that is quite outstanding. Whether responding to an emergency on a cold Saturday night to get people's water back on, or dealing diligently with billing issues, there is a sense of purpose throughout the organisation. Our people are tremendously loyal to the company, but also to the community. They are a credit to the company and I thank them for that.

Outlook

One of our key priorities is increased clarity on the investment we will need to make, not just in the next five years, but in the next 25 years. That's part of the regulatory process, and also a major part of our planning in the next 12 months. As for performance, I'm pleased with the improvements we've seen recently, and I expect the Executive Team to continue on this trajectory.

Ian Tyler
Company Chair

12 July 2022

Read the Governance introduction by the Chair on page 122

Alignment of culture with purpose, values and strategy

We are driven by our purpose and guided by our principles

Our integrated approach

Our purpose and strategy are underpinned by sound Environmental Social Governance (ESG) and our integrated reporting approach provides clarity on how we conduct our business and create value for customers and the environment.

Our purpose

Why we exist

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

Our vision

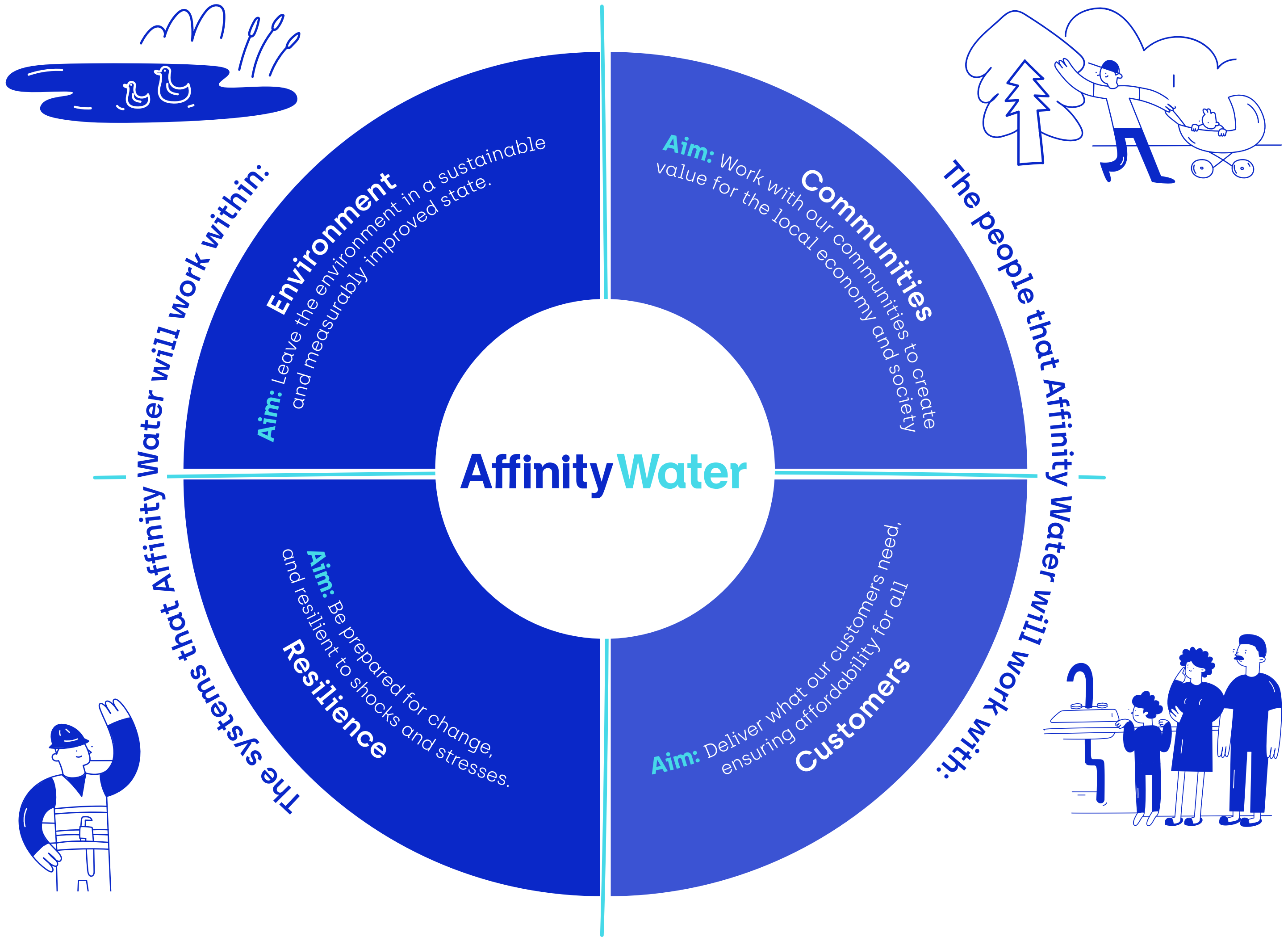
Our aspiration

To be the UK's leading community-focused water company

Our strategy

Our plans to deliver value

Our Strategic Direction Statement ambitions



Our customer outcomes

Our customer outcomes are the commitments we made to customers in our business plan 2020-25. This plan was shaped by customers and stakeholders on the things they want their company to deliver on.

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

Read more about our customer outcomes on page 56

Our brand genes

These are the three things we want everyone to think about Affinity Water.

Read more about our brand genes on page 04

Our culture

Ethical foundation enabling better decisions every day

Customer-centric culture

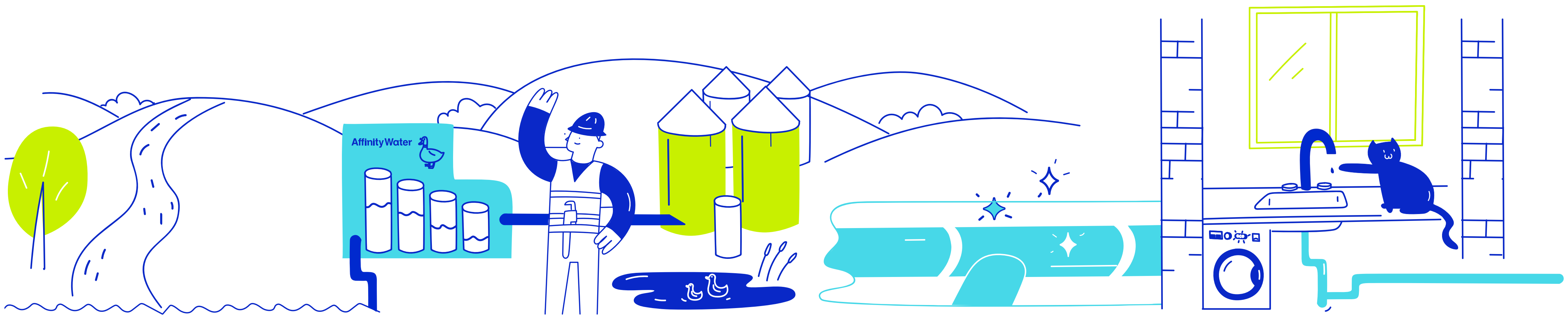
We're proud to have outstanding employees that go the extra mile for our customers. For us to continue to exceed customers' and colleagues' expectations, it's essential that we understand what these expectations are. Our Principles have been developed to give every one of us direction and guidance, to help support the fantastic work we already undertake.

Our principles

Each person at Affinity Water is guided by our principles – doing the right things for customers and delivering against our commitments and promises. (see page 05)

How we operate

Our mission is to provide sustainable, high-quality water and work together with our community to make better use of water, and safeguard the local environment.



We've been supplying water to the local community for more than 170 years.

In June 2022, we celebrated our 10th anniversary as Affinity Water – but our history runs much deeper than that.

In various guises, we've been supplying water to the local community for more than 170 years.

In 1848, The Folkestone Water company was established alongside a mix of other small water companies who served the areas we now supply today.

The provision of clean drinking water was a marvel of the last millennium and helped to drastically improve standards of living and public health.

Over a hundred years later, pressure on water resources from a growing population resulted in a new network of pipes that enabled the distribution of water from the River Thames over a wider area.

Over time, we evolved from various mergers with smaller companies and in 2012, we became known as Affinity Water.

Since those early days of the first water companies, our expertise and network has grown exponentially to provide the essential service of supplying high-quality water to an ever-increasing population.

In the same way, our forebears met the challenges of their time to improve living standards and public health through the provision of clean drinking water – we are now faced with other challenges from climate change and population growth that has made our supply area a 'water stressed area'.

Through long-term planning and working with our communities, we are focused on building a network that provides a sustainable supply of water to an increasing population, whilst leaving more water in the environment to our globally rare habitats. A network that is resilient to the threats of climate change and able to support a growing economy. And a service that is exceptional to customers.

Water is collected

Most of our water comes from local sources in the chalk aquifer. Local sources of groundwater are less energy intensive to treat and distribute compared to surface water. However, we need to leave more water in the chalk aquifer to help our globally rare chalk streams, which are under threat from the demand for water and the effects of climate change.

Key facts

We are looking at new ways to bring in water from neighbouring areas through our Sundon treatment works, so we can leave more water in the environment (see page 39).

We are moving water around our network more efficiently. With a new trunk main from Hemel Hempstead to St Albans we can reduce the amount we take from local chalk groundwater (see page 61).

"We are the largest water-only supplier in the UK and we are committed to delivering a high-quality water service to all our customers."

Water is cleaned

As we take water from various groundwater and surface sources, the quality of it can be different, so the treatment process is tailored to make sure we continue to provide the highest quality water possible.

Key facts

We provide some of the highest quality water in the world. In fact, in 2021, Affinity Water achieved an industry leading Compliance Risk Index* (CRI) score of 0.87 within a dead band of 2 and improving upon our 2020 performance of 1.31 (see page 58)

High-quality water assured through 186,000 tests at our sites and customers' taps.

* CRI is a measure designed to illustrate the risk arising from treated water compliance failures.

0.87

Industry leading Compliance Risk Index* (CRI) score within a dead band of 2

186,000

Tests at our sites and customers' taps

Water is stored

After water is treated, it is pumped into large storage reservoirs or water towers before making the final journey to customers' taps.

Key facts

Water is heavy. It weighs a tonne per cubic metre! This is the same amount of water a family of four would use in about a day and a half, and we need to supply about 936 million litres of it to 3.8 million people, every single day.

Due to its weight, the process of moving water and treating it requires a lot of energy, which carries a carbon impact.

We have committed to net zero carbon from operations by 2030 – see page 80.

Investing £29 million in solar renewables at our sites saving 75,000 tonnes of CO_2 – see page 35.

936M

litres of water supplied to about 3.8 million people, every single day

£29M

Investing in solar renewables at our sites

Water is delivered to customers

We look after over 16,900km of pipework that would stretch from London to Sydney. Our network of pipes is used to deliver over 936 million litres of high-quality water to 3.8 million customers, every single day.

Key facts

Each person in our supply area uses about 12 litres above the national average. Our area is also considered water stressed and we need to leave more water in the environment.

Over 191,000 customers joined our industry leading campaign 'Save our Streams' helping to save over 21 million litres of water a day. Read more on page 35.

We have reduced leakage by 10.5% and are on track for 20% reduction by 2025. Read more on page 60.

We look after over

16,900KM

of pipework that would stretch from London to Sydney

After water is used

After customers use water, it is flushed into the sewage 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.

We are focused on providing a long-term sustainable supply of water for our customers and leaving more water in the environment to help our region's chalk streams.

"We are focused on providing a long-term sustainable supply of water for our customers and leaving more water in the environment to help our region's chalk streams."

Performance highlights

Second year of our 2020-25 business plan

Every five years, water companies produce business plans which set out the performance commitments they will deliver over a five-year period. These plans are shaped by customers and stakeholders on the things they want their company to deliver on.

Our current Business Plan 2020 – 2025 includes a total of 28 stretching performance commitments that will ensure we deliver our four customer outcomes.

Operational

Supplying high - quality water you can trust

Our performance in 2021-22

- Compliance Risk Index (CRI): We scored 0.87 for the 2021 calendar year within the deadband of 2 (lower is better). This is our best performance yet and improves on our 2020 score of 1.31. CRI is the metric the industry uses to measure water quality and is designed to illustrate the risk arising from treated water compliance failures.
- Customer contacts per 1,000 population for water quality: We achieved a contact rate of 0.75. Whilst this is our best performance yet and improves on our prior year score of 0.83 and the improving trend that we saw before Covid, we did not achieve the performance rate of 0.67 set for the year.

Read more about supplying high-quality water you can trust in the operational performance section on page 58

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

Our performance in 2021-22

- Leakage: We reduced our leakage by 10.5% (based on three-year average from 2019/20). This did not achieve the targeted rate of an 11.1% reduction, but was a reduction of 16.6Ml/d since 2020/21. Failure against the target was mostly due to performance in the prior years.
- Per Capita Consumption (PCC): PCC increased by 4.1% (since base year) but did not achieve the target of 4.9% reduction. However, this is a decrease of 13.6 l/p/d compared to prior year. PCC is measured as a three-year average, and there was an increase in domestic water use due to Covid restrictions.
- We delivered three Environment Innovation Projects in the year, aimed at educating and reducing water usage. We are aiming to complete seven EIP projects by 2025.
- River restoration: We completed 13 projects in the year, bringing our total to 20 in the AMP period. We completed seven projects prior year.
- Abstraction Incentive Mechanism (AIM): We reduced abstraction by 430 ML in the year from environmentally sensitive sites when flows or levels were low. (2020/21 was 304 ML)

Read more about making sure you have enough water, whilst leaving more water in the environment in the operational performance section on page 60

Providing a great service that you value

Our performance in 2021-22

- Customer Measure of Experience (C-MeX): C-MeX is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. We have achieved 14th position out of 17 companies assessed against C-MeX. Our score for the year was 76.57, compared to the industry median of 80.43. We have moved up one place on the ladder since 2020/21.
- Developer Services Measure of Experience (D-MeX): (D-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for developer services (new connections) customers. These customers include small and large property developers, self-lay providers (SLPs)1, and those with new appointments and variations. Our D-MeX score for 2021/22 was 85.54, compared to an industry median of 85.26. We are placed 8th out of 17 companies in the industry league table, an improvement of two places on 2020/21 and continuing our improving trend over the last two years.

Read more about providing a great service that you value in the operational performance section on page 62

- Priority Services Register: We have exceeded the target of 3.3% of our customers of the Priority Services Register (PSR). In 2021/22, 6.5% were registered (5% in 2020). During the year, we attempted to contact 90% (63% in 2020) of these customers and made actual contact with 47% (25% in 2020).
- Gap sites: We reduced the number of occupied properties not billed by 74, against a target of 50. In 2020/21, we reduced the number of occupied properties not billed by 118.
- Void properties: We achieved our target of reducing our void properties in the year to 2.23%, against a target of 2.27%. (2020/21 reduction of 2.37%)
- Vulnerable customers: Through surveys conducted, 97% (97% in 2020/21) of our customers in vulnerable circumstances who receive financial help said they were happy with our service, and 98% (96% in 2020/21) of those that receive non-financial help were satisfied. We achieved the target of 90% for both customer surveys.
- BSI Accreditation: We retained certification for BS 18477 for Inclusive Service Provision.
- IT resilience: We have met the target of less than 1,500 Priority 1 and Priority 2 IT incidents in the year, with 949 incidents. (2020/21 was also 949 incidents)

Minimising disruption to you and your community

Our performance in 2021-22

- Mains repairs: Performance in the year was 100.2 repairs per 1,000km of mains against a target of no more than 148.6 in the year (2020: 155.8). Weather is a strong contributing factor in the number of mains repairs required in a year. 2021/22 experienced a benign summer and winter and, therefore, the year's figures cannot be directly compared to the previous year's without taking this into account.
- Interruptions to Supply (I2S): The number of minutes per property where interruptions to supply was three hours or greater was our best performance in a year – 3 minutes 43 seconds – compared to our target of 6 minutes 8 seconds. This is a reduction of over 2 minutes on 2020/21 performance.
- Unplanned interruptions >12 hours: 477 properties were interrupted for over 12 hours, against a target of no more than 320 properties. 421 of these properties were because of a single major burst event with no options for maintaining mains water to the properties. This is an improvement on last year's performance of 538 properties.
- Properties at risk of receiving low pressure: We did not achieve the target of 1.51 properties affected per 10,000 connections at risk of receiving low pressure. Performance for the year was 48.20 which is an improvement on last year's performance of 196.85. However, the number of pressure monitoring points we have across our network, combined with reporting guidance conceived more than 30 years ago, makes it unlikely we can ever meet the prescribed target.
- Average time properties experienced low pressure: On average, properties were affected for 1.67 hours in the year, against a target of <11 hours (2020 / 21: just over 5 hours).
- Unplanned outage: We experienced 1.19% of unplanned outages across all our treatment works in the year, against a target of <2.34%. This was an improvement on 1.65% in 2020/21.
- Severe restrictions in a drought: We have not achieved the target for severe restrictions in a 1-in-200-year drought scenario, with 61.5% of population being at risk against a target of 0%.
- Delivery of WINEP: We have delivered the requirements for the Water Industry National Environment Programme (WINEP) in the year. This requirement is laid out to improve the natural environment by the timely delivery of environmental improvements schemes. This was also met in 2020/21.

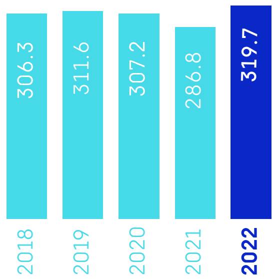
Read more about minimising disruption to you and your community in the operational performance section on page 64

Performance highlights continued

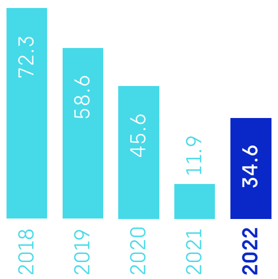
In 2021/22 a number of external factors such as high inflation and the rising cost of energy has had an impact on the business.

Financial

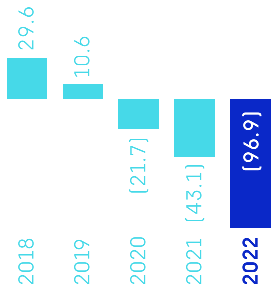
Revenue £m



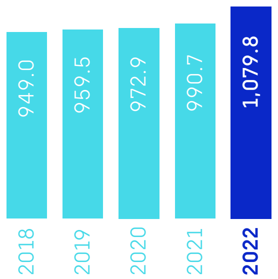
Operating profit £m



Profit/(loss) for the year £m

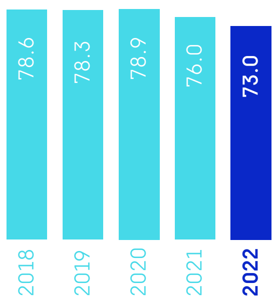


Net Debt £m

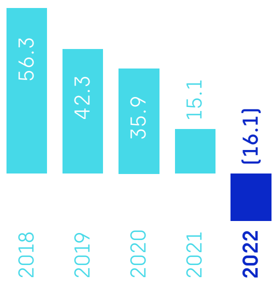


Regulatory Capital Value (RCV) £m

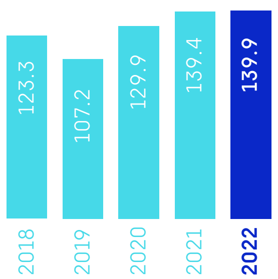
Gearing %



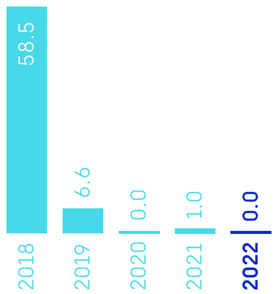
Cash flow £m



Capital investment £m



Dividends paid £m



The **£96.9m** loss for 2021/22 is as a result of:

Operating profit
£34.6m

Finance costs
£(86.9m)

Fair value loss on derivatives
£(3.3m)

Taxation
£(41.3m)

Finance costs have been impacted by increased inflation, as a number of our bonds are index-linked.

Taxation includes an additional deferred tax charge for the increase in tax rate from **19% to 25%** effective from 1 April 2023.

Please refer to **page 40** for more information on our **financial performance for 2021/22.**

Credit ratings

	Class A	Class B	Corporate family
Moody's	A3	Baa3	Baa1
Standard & Poor's	BBB+	BBB-	N/A
Fitch	BBB+	BBB-	N/A

All of our ratings have been confirmed and remain investment grade, with no changes from prior year (Fitch, October 2021; Standard & Poor's, April 2022; Moody's, May 2022).

Affinity Water issues first Green Bond in 2021/22

In 2021/22, we announced that our financing subsidiary, Affinity Water Finance PLC, issued a Class A £130 million 0.01% CPI-linked private placement due September 2038.

The issuance is Affinity Water's first green bond. The proceeds will be used to finance expenditure outlined in our recently published Green Finance Framework, which is available on our website.

The Green Finance Framework aligns Affinity Water's strategic and sustainability priorities with its funding and financial strategy.

Affinity Water has selected several key focus areas for green investments that are fundamental to its Sustainability Strategy, and will deliver tangible environmental and indirect positive impacts on society, alongside contributing to the UNSDGs.

The Green Finance Framework has helped to attract investors who are supportive of these goals, and who will act as valuable partners in supporting our journey to a more sustainable society.

The Framework covers several different initiatives including: sustainable water management; pollution prevention and control; terrestrial and aquatic biodiversity conservation; and energy efficiency.

"We are delighted to have issued our first green bond instrument; this aligns our financing strategy with our sustainability focus.

This journey brings with it great opportunity. We are investing in our assets and services, and collaborating across the industry to ensure we leave more water in our rare, precious chalk streams, and move towards a net zero carbon future."

Michael Blake,
Affinity Water Treasurer

Our genes

- Stewards of the local environment
- Helping customers use water better
- Giving customers an exceptional experience

Customer outcomes

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

UNSDGs

Strategic Report

Affinity Water on track to complete one of the longest UK river restoration projects

As part of Affinity Water's commitment to improving and creating a sustainable environment across our supply areas, we are delivering river restoration projects along 13 rivers including the River Beane.

In 2021/22, the river restoration team completed phase two of the River Beane restoration works at Woodhall Estate, creating nearly a kilometre of brand-new chalk stream and reconnected a massive 6.6km stretch of chalk stream by removing and bypassing obstacles like weirs. This was the fifth overall project within the River Beane restoration works and ensures we are on track to complete one of the longest river restoration projects in the UK.

In May 2022, Affinity Water's Board visited the River Beane along Woodhall Estate to learn more about the project from Affinity Water's river restoration team.

"The Board and I were delighted to see the River Beane and learn more about the fantastic achievements of the restoration team to help improve the ecological health of this vital chalk stream."

Ian Tyler,
Affinity Water Chair

To read the case study in full **visit: affinitywater.annualreport2022.com**

Our genes

Stewards of the local environment

Customer outcomes

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

UNSDGs

Our business model

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

Forces acting upon us...

Our external environment

Protecting the natural environment

- Climate change
- Population growth

Economic environment

- Financing our business
- Customer expectations

Regulatory and political environment

- Laws and government
- UN Sustainable Development Goals

Read more about our external environment on **page 44**

Our capitals

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

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

Read more about our approach to multi-capital thinking on **page 32**

UNSDGs

Our alignment with the UN Sustainable Development Goals.

Read more about our UNSDGs on **page 71**

Stakeholders

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

Read more about our stakeholders on **page 52**

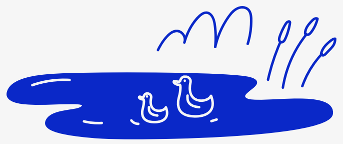
...shape our purposes and ambitions,

Our journey in addressing the challenges of climate change, demand for water and population growth, while continuing to provide a high-quality supply of water and exceptional service.

We are laser focused on providing simple, effortless experiences to our customers wherever they interact with us. To continue doing this, we need to protect local environments, and inspire and lead our consumers in wasting less water.

Our Strategic Direction Statement ambitions

The systems that Affinity Water will work within:



1. Environment

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

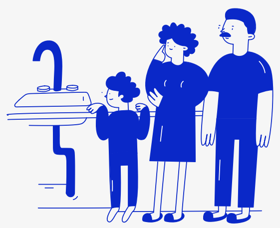
2. Resilience

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

The people that Affinity Water will work with:

3. Communities

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



4. Customers

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

enabling better outcomes for our customers...

A sustainable water supply for this century and beyond

We plan and invest for the long term. Through the use of new, 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, provides a sustainable, high-quality supply of water, while taking care of the environment – now and for the future.

See the water cycle and our impact on **page 14**

Our customer outcomes

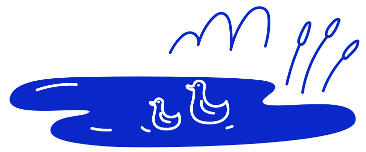
Although our residential customers cannot choose their water supplier, our ambition is to increase their satisfaction with Affinity Water so that, if a choice were offered, our customers would choose us and be happy to recommend us to friends and family.

Read more about our AMP7 plans on **page 56**

...and creating value for all.

Environment

- Enshrining the environment within our purpose as a company
- Helping to protect our globally rare chalk streams through reducing abstractions from sensitive chalk groundwater sources and river restoration
- Driving our business to net zero carbon by 2030.
- Helping to improve biodiversity across Affinity Water-owned nature reserves, assets and working in partnership with local communities

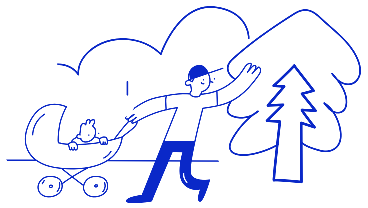


Resilience

- Looking after the health, safety and wellbeing of our employees
- Ensure employees have the tools they need to do the job and upskill through learning and development
- More sustainable activities to drive delivery of sustainable 'good profits and dividends'
- Working with suppliers to innovate to increase resilience for the benefit of customers and environment
- Reducing operational cost to serve

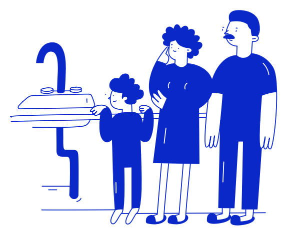
Communities

- Minimising disruption for our communities
- Supporting the economy across the region through investing in infrastructure and generating employment
- Increase pride in working for Affinity Water
- Increase incentives and reduction in fines for our shareholders



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 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



CEO's introduction

"Everyone has worked incredibly hard throughout the organisation and, through our collective efforts, we are becoming more of a team across the company. For that, I would like to say a big thank you to everyone, and also for the support I've received in moving into this role."

We still have a lot to do on our journey to 2025

but we have really moved forward and I think we can achieve an excellent performance next year and through the AMP by focusing on our key eight performance indicators.

Journey to 2025

In November 2021, I set out the plan to the end of this regulatory period, which is called Journey to 2025. This has been communicated across the business and underpins how we are moving forward.

Journey to 2025 has four forward themes that set the high-level outcomes we are aiming to achieve over the next three years.

Overview

We have made good progress this year. Our performance has improved across all of our key areas of performance. We have redefined who we are, launching a new look for the company, we have put in place a new leadership team, and are establishing the culture of the organisation. We have advanced our planning for our water resources management plan, our PR24 plan and our longer-term strategy. We have also put in place all of our financing for this regulatory period and in doing so launched a green financing framework and a green bond. I believe we are really moving forward as a business, but also know that we have much more to do over the next couple of years. Coming into the role of CEO in September, I set out our plan to the end of this regulatory period, AMP7, which is called Journey to 2025. This sets our priorities of delivering performance in this regulatory period, developing a robust and credible PR24 plan for the next regulatory period and beyond and framing the future to enable the company to continue to deliver for its customers.

Here I will cover how we are dealing with macro and sector issues before taking a closer look at our performance and how we are progressing our key strategic targets or outcomes.

The external environment

External factors affect all businesses and their customers, and there have been a number of these worth noting this year. The treatment of water, and distributing it to everyone's houses, makes energy one of our biggest costs, and energy prices have risen sharply, particularly in the second half of the year. In addition, with inflationary pressures, chemical prices have gone up 35%. Our hedging strategy for energy has protected us to some extent and will do so for the year ahead. Nevertheless, higher prices than we planned for have been a challenge from a cost perspective.

Of course, Covid has also had an impact. Many customers would normally leave our region to go to work or on holiday, but instead they have been at home. Therefore we have seen much higher water usage over the last two years than in previous years,

1

Delivering the best outcome for the current year and setting ourselves up for success.

a. Focus on the top 8 PCs,

b. Tactical changes and

c. In year plans

2

Achieving our AMP7 plans and ambitions.

a Focus on the top 8 PCs,

b. Culture programme, and

c. Delivery plans for the AMP including totex.

3

Plan for AMP8 that is robust, credible and stretching with confidence in deliverability.

a. PR24 programme,

b. Water Resources Management Plan, and

c. Strategic Direction Statement.

4

Enabling us to step into AMP8, transition seamlessly and be ready for our future.

a. Key enabling projects

CEO's introduction continued

although we've kept everyone in supply. I am also concerned about the impact that Covid, as well as inflation and the cost of living crisis, might have on people's financial situation. For our employees, we have run some financial workshops to help, and provided a 4.6% increase in pay this year.

For customers, we've been very proactive in providing more support. We have a social tariff and debt trust funds, and are identifying and reaching customers who qualify, and we have also established various payment plans. We have used data and insight to proactively reach out to customers to offer support. That has helped us to reach a position where we are supporting over 96,000 households, while at the same time, actually improving our collections process and our bad debt performance.

We proactively contact customers we feel to be vulnerable through our Priority Services Register – not just from an economic point of view, but also those who have a critical need for water supply, perhaps a medical need, or people who are unable to get to where we may be supplying water in an emergency situation. We are pleased to report we now have over 92,000 customers on our Priority Services Register who receive extra support during emergencies.

Interruptions to supply score one of the best performances in industry

3:43
minutes seconds

Partnerships are key for us to drive our message and engage with customers – especially those hard to reach.

We have partnered with debt charities and other organisations such as at National Debtline, Citizens Advice, Money Advice Service, Surviving Economic Abuse, StepChange and Turn2Us.

Data sharing is also integral in helping us reach customers who may benefit from our support and we already have arrangements in place with UKPN (UK Power Networks) and SSEN (Scottish and Southern Electricity Networks).

In setting our tariffs for 2022/23 we accelerated a rebate of £3m to bring forward this benefit to customers.

Issues specific to the water sector

The water industry has been in the media spotlight a lot this year due to combined sewer overflows, which are instigated by storms. As a water-only company, the storm overflow issue doesn't affect us directly. But nevertheless, it has brought to the forefront the whole conversation about water, its connection with the environment and with rivers. There are sewer overflows that go into some of the chalk streams in our area, but the biggest issue for those streams is that they have very limited flow in the first place. This is partly due to the abstraction to supply customers with water, and we need to look at how we can reduce this over time. So it does lead to the need to have those wider conversations, as a nation, about how we value water and use it sensibly, and address the challenges of water scarcity.

One thing we are doing, and for the first time, is to have an integrated long-term water plan for the south, as part of Water Resources SE. Here, the water companies work together to address the need for water in the face of climate change, population growth and impacts on the environment. These plans will then feed into our own water-resources plans and then into our next price review.

Progress towards achieving our strategic outcomes

Our strategy is geared to a number of key outcomes and metrics – and while we have 28 performance commitments that are all important, I have been focusing on our top eight, which we believe are the main concerns for our customers. Consequently, they are also the ones that have the largest penalties or rewards attached to them. I believe if we get these right, everything else will follow, and I'd like to touch on four key customer outcomes first:

Supplying high-quality water you can trust

People turn on their tap with an expectation that the water coming out will be of the highest quality, so I'm proud to be part of an industry that produces some of the best-quality water in the world. On the metric set for this, we are excelling with a performance that is upper quartile in the industry. This follows a real focus in this area this year.

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

We are in a water-stressed region, and we have to strive for this balance. We haven't achieved our per capita consumption nor leakage targets, but in both we have made a massive step forward and I will expand upon these below. For both, I believe we will achieve our targets for the AMP period, which I know is a bold ambition, particularly for PCC. Leakage I expect us to be on track with our target in the coming year. We have invested more in this area, utilising technology to find leaks and reduced the time it takes to fix leaks. To meet our PCC target for the AMP means that we will need to aim to fully offset the impact of customers changing the way they live, staying at home during Covid and using more water, post Covid. We believe that we can meet this challenge through our leading approach to PCC.

Providing a great service that you value

We have three regulatory service measures. C-MeX is our customer service metric. Here we have a lot more to do and it is an area we are focusing on. We have closed the gap, but are still ranked towards the bottom of the water companies. Our work to redefine who we are and engaging with our customers will help, because understanding who we are makes up part of the score. But we have a number of plans involving our people, systems and processes that I expect to help us improve on the service side next year. D-MeX measures how we look after our developer services, or new or additional connections, and in comparison to our peers we are now at strong mid-table performance, which is a great improvement. The last is R-MeX, the measure for retailers who bill business customers for the water they provide, supplied by us as the wholesalers. This year we have been ranked first again, and increased the gap to second place, so we've continued to improve in this area, delivering a great service to the retailers. In addition to these we also use the UK Customer Service Institute survey. We believe that this is a great measure of service as customers are rating the service against other service providers that they use. Under this survey we have increased by 5.6 points and ranked 9th in the industry, an improvement on last year.

Minimising disruption to you and your community

This is principally about interruptions to supply. The main measure, which everyone has, is the average minutes of interruptions over three hours across our customer base. So in effect, if we haven't solved the problem within three hours, the clock starts ticking. This year our time is three minutes, 43 seconds. Our regulatory target was six minutes, 8 seconds and just to put it in context, two years ago we were at 16 minutes. Dividing up all those minutes across our whole customer base, to improve by one minute is a big achievement. So I'm really proud of what the teams have achieved in this area; it's a brilliant performance. We want as few issues as possible for customers, but this is all about how we react to an issue when it happens, or detect it before it even becomes an issue. With the monitoring we have on the network, and using machine learning in our control centre, we quite often know there's an issue before our customers do. So we can mobilise accordingly, whether it's repairing the problem or keeping customers in supply while we do.

> "I look forward as a series of horizons, being the year ahead of us, then the remainder of the current AMP, followed by the next AMP of 2025-2030, and then the longer term."

Other performance highlights

Reducing leakage

While we haven't made this year's target, we are at the lowest level of leakage we've ever achieved, which is a massive step forward. We invested more than we had planned in improving our technology making use of satellite technology and developing artificial intelligence. This enables us to piece together all the monitoring across the network and understand where the leaks are. Most leaks are in the ground, rather than the classic burst pouring out across a street, so to repair a leak, we need to identify the right place to dig. Our new technology helps us do that, and it's created a real turnaround in performance.

Per capita consumption (PCC)

Again, we didn't achieve our target, but we have seen a reduction of 13.6 litres per person per day in the year. We are confident that over 21 million litres of water has been saved through demand side improvements alone and we expect this performance to be industry leading in terms of absolute reduction volume.

One challenge has been the increased home usage from Covid lockdowns,

CEO's introduction continued

as I mentioned, but we are nearly back to pre-pandemic levels. We've managed this through campaign-led approaches such as our award winning Save Our Streams campaign that over 191,000 customers signed up to in 2021/22, water-efficiency home checks, virtual home checks, and engaging with our particularly high users.

Rebranding

To help our customers reduce the amount of water they are using, we need to increase awareness of who we are, what we do and why this is important. In addition, we are now measured not only on the service we provide, but also on people's perception of us. So our brand, or who we are, is really important, and this year we have undertaken a major rebranding exercise. Our brand positioning statement, our look, and a feeling of togetherness and consistent messaging will help customers understand the impact we have on their lives, and also how we can help them. It provides an identity for our people as well, which is really important as they are key to delivering great service every day. We've done our first TV campaign in the new branding. It's about leakage, and it's really important because we're asking customers to play their part. So, truly, our brand is connected to our performance.

Progress through AMP7

We have completed two years, and we're going into the third. This is hugely important because, if we're achieving in our core business, we have the legitimacy to take the things we're doing, and want to do, into our next price-control submission and into our longer-term strategic direction statements.

So with the areas of performance above, although we've made great progress, we need to get them to a point where they are achieving their targets, and that's very much the focus. After a tough price review, we were behind where we needed to be when we came into this regulatory period, and I now feel we've turned a corner and are moving in the right direction.

ESG initiatives during the year

From an ESG perspective, there are a number of initiatives I should highlight. As we don't have an integrated energy source from the by-products of waste, we are later than other water companies in addressing the energy-generation issue. But this year, we switched on our first solar plants and will be adding more shortly. We have agreed to invest in a further 28 sites which, once installed, will be providing 10% of our energy through solar before the end of AMP7. We will also have our first electric vehicles next year, and have made great progress with our river restoration work, completing over eight projects in the first two years, making a real difference to our local environment.

On social matters, we've brought forward a customer rebate so it can go into customers' bills this year, rather than waiting for a regulatory process that would put it into next year. And internally, we launched our One Network, very much focused on diversity, equality and inclusion. We have a number of groups that focus on different aspects of diversity, each sponsored by an Executive member.

Our focus for the future

One of the big issues is future water scarcity – the need for new water resources but, in the shorter term, managing the water we have, including reducing abstraction from the more delicate areas of water supply. Currently we are working on our water resources management plan and setting out what this looks like for the next 50 to 60 years. And from that we work forward to our next five-year plan. But we're at a really crucial point where we have to take action now, just like we do on carbon. What we decide now is about ensuring people have sustainable water for the next one hundred years.

One of the things we have to consider is the risk of severe droughts from climate change. While we can plan for how we take water from different sources, or join up water supplies, in the immediate term, the two tools we have in our arsenal are reducing the amount of water we take, and getting people to use less. This means working harder on our PCC, as well as investing in new technology to be able to better serve our customers, and then increasing capital investment. For example, we are opening a plant at Sundon that allows us to reduce the water we abstract from the chalk aquifers in the north of our region.

We are also well underway with preparing our PR24 submission, with a team pulling the plan together, and I think it's more integrated across the company than previous plans. The Board has been engaging heavily on this, and I feel we are on track to presenting a strong and thorough plan for PR24.

Our people

The last two years have been challenging. If they weren't challenging enough given the hill we had to climb to achieve the outcomes we agreed, we also had a pandemic to contend with. Everyone has worked incredibly hard throughout the organisation, and through our efforts we are becoming more of a team across the company, rather than different departments. For that I would like to say a big thank you to everyone, and also for the support I've received in moving into this role.

Health, safety and wellbeing

The health, safety and wellbeing of our people and customers is a top priority for us. In December and January, we engaged an external safety specialist to review our safety and in particular our safety culture. This has highlighted areas where we can improve with the development of an action plan, which includes activities focused on building on our leadership, behaviours and wellbeing.

We are continuing with this work, and as part of this I am making changes in the leadership of this area and the structure of the team. Some of these resources will be embedded within our operational teams, to support and coach them, and to ensure we are doing the right things every time.

We want all employees to feel valued, supported and respected at work. To help us achieve this, in 2021 we launched the Women's Network, the Men's Network and the ONE Network (for Black, Asian and minority ethnic employees).

All networks are open to colleagues who identify with a particular network, as well as colleagues who want to help the group achieve its goals.

Every network is sponsored by an Executive Management Team member. This year, we'll be launching two more networks: Pride and Neurodiversity.

Outlook

I look forward as a series of horizons, being the year ahead of us, then the remainder of the current AMP, followed by the next AMP of 2025-2030, and then the longer term. And of course as we reach these, they become milestones or checkpoints that tell us where we are and how we have done. At this stage, the first of those is the most important. We still have a lot to do on our Journey to 2025, but we have really moved forward and I think we can achieve an excellent performance next year and through the AMP by focusing on our key eight performance indicators. But it's also the year when we set out our water resources plan and our PR24 plan, so it is a key year for us. So success in my third horizon is based on a robust and credible PR24 plan that makes compelling arguments for what we aim to achieve, which of course sets us up for the longer-term future. The logic of that approach is to try to provide some clarity for each of those horizons, but it all starts with next year's performance. The key to success in delivering our plans is prioritisation, our people and team work. To support this we are delivering a cultural change programme and investing in our people who ultimately will set us up for success for our Journey to 2025 and beyond.

Stuart Ledger
Interim CEO

12 July 2022

Sustainability
at a glance

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

Water is a precious resource and essential for life, but it is also a finite resource that we take from and return to our diverse and unique local environment.

Our operating area includes four Areas of Outstanding Natural Beauty, a range of designated sites including Sites of Special Scientific Interest and Local Nature Reserves. Our supply area includes Dungeness, the largest and most diverse stable vegetated flint shingle beach in Europe. Our region is also home to around 10% of England's chalk streams. These are globally rare and important habitats that support a variety of plants and animals.

Providing high-quality drinking water in a region with such a diverse range of habitats poses challenges, particularly in light of climate change and a growing population. We will continue to seek to improve our understanding of our local environment and interactions with it, and use these insights to inform our decision-making so that we protect and enhance our local environment for current and future generations.

How this will be achieved

1 Industry-leading network

We have established an industry-leading environmental monitoring network and have plans to further expand our monitoring. To support this, we will measure how our plans and activities impact the environment while considering the broader definition of 'value' through the use of a multi-capital approach that includes natural capital. We will share our environmental data with our 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.

2 Working in partnership

Our ambition is to become a centre of excellence for collaboration with our partners by facilitating and driving active engagement with landowners, tenants, river groups, environmental regulators and other organisations to fulfil our ambition. We recognise that we cannot solve these challenges alone and only by working in partnership will we deliver our environmental commitments and achieve our company vision.

3 Resilient and diverse catchments

We are creating resilient catchments that can support a diverse range of habitats, while protecting water resources and quality. Our supply duty will be met through a sustainable abstraction regime that optimises where and when we take water from our environment.

4 Prepared for the effects of climate change

We are taking action to ensure our long-term strategies prepare us for the effects of climate change – both on our assets and the environment we operate in. We are committed to reducing our operational and embedded carbon emissions in line with our net zero carbon commitments. We recognise that we do not have all the answers yet, so we will work with industry, regulators and our supply chain to constantly adapt our plans, and incorporate innovation and new technologies in support of this ambitious goal.

Our environmental ambition in our Strategic Direction Statement is:

> **"Leave the environment in a sustainable and measurably improved state."**

Affinity Water steps into Minecraft

In 2021/22, we stepped into the world of Minecraft to use it as an engagement and educational tool for the water cycle and home water efficiency.

Core modules were developed and tested with children steering groups to help improve understanding of the water cycle – travelling as a water drop from cloud to tap and back up to the clouds again.

Teacher-led sessions guided children through the Minecraft world on a water efficiency journey. Every 'room' in the game included quizzes, challenges and facts to learn each step of the way.

This was one of three initiatives as part of our Environmental Innovation Projects. For more information on our Minecraft project and other Environmental Innovation Projects visit:

affinitywater.annualreport2022.com

Our genes

- Stewards of the local environment
- Helping customers use water better
- Giving customers an exceptional experience

Customer outcomes

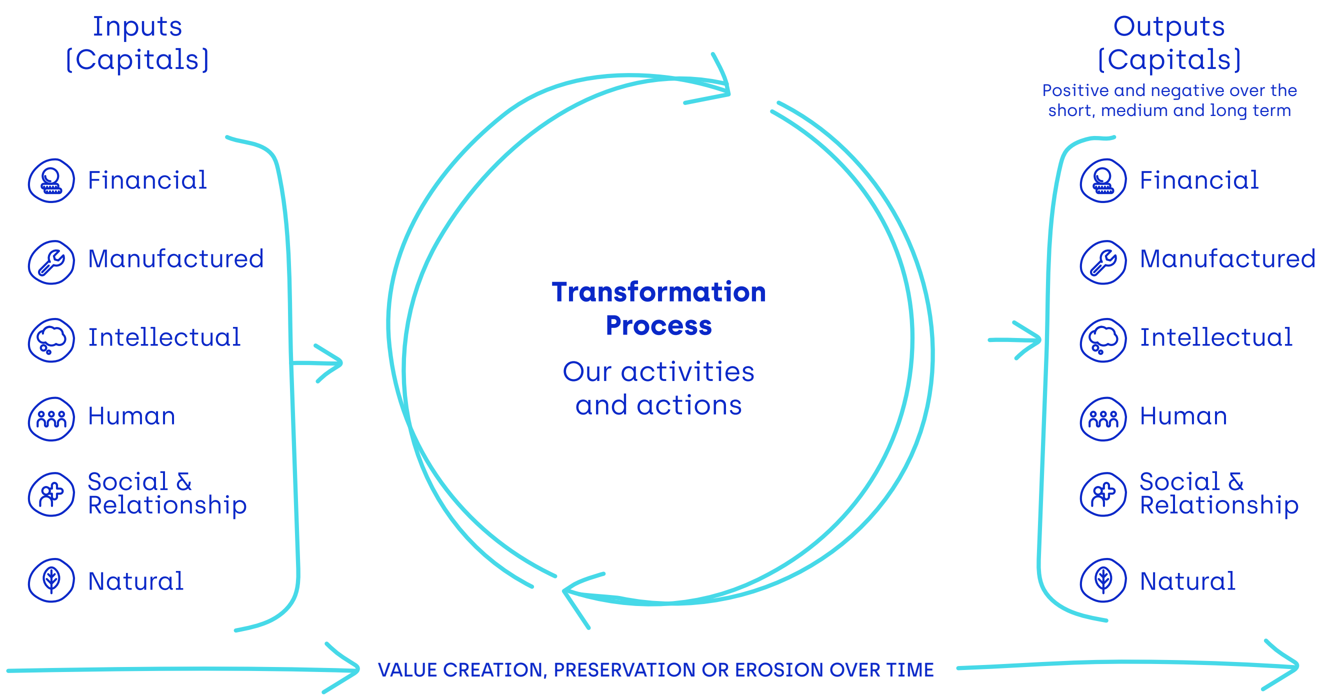
- Making sure you have enough water, whist leaving more water in the environment
- Providing a great service that you value

UNSDGs

Our approach to multi-capital thinking

Our capitals

Our capitals are the resources and relationships that are 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. We are starting to use the concept of capitals to guide our decision-making, for example, when considering land use and weighing the interests and benefits of recreation and biodiversity enhancements.



Our activities have an impact on the capitals we use and, sometimes, there is a trade-off between them. We are committed to balancing those trade-offs and are guided by our purpose and genes to make the decisions. The six capitals are shown above.

1. **Financial capital** – our financial health and efficiency
2. **Manufactured capital** – our above ground and underground infrastructure e.g. pipes and offices
3. **Natural capital** – our environmental resources, both renewable and non-renewable e.g. water and biodiversity
4. **Human capital** – our people and their capabilities and wellbeing
5. **Intellectual capital** – our knowledge, intellectual property, patents, rights, and organisational systems and protocols
6. **Social capital** – our relationships with our customers and communities

In 2021/22, we started developing a multi-capital approach and used it in various programmes including cover crop schemes, developing water resource management plans and sustainability driven land strategies and to manage our capital investment portfolio.

On the following pages of this report, we have highlighted where we have applied our multi-capital thinking in the activities we are undertaking.

Examples of multi-capital thinking and broader value generation

1 Maintaining a high quality supply of water

Delivering financial and manufactured capital value

We always strive to deliver water that meets, or exceeds, the minimum requirements of the UK water quality regulations. By way of example, current health advice is that concentrations of lead in water should be reduced below the current standard. Since July 2021 when Covid restrictions eased, we have been able to implement our 2020–25 lead strategy. We now replace lead communication pipes when we detect lead above half of the current standard. Our trial in one area replacing consumers' lead pipes, in some instance within their homes, has had a tremendous uptake despite the potential disruption. This trial will be extended to other areas and with different levels of incentivisation to determine the most effective strategy beyond 2025.

Our genes

Customer outcomes

UNSDGs

Our genes

- Stewards of the local environment
- Helping customers use water better
- Giving customers an exceptional experience

Customer outcomes

- 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

2 Save our Streams

Delivering human, natural, social and relationship capital value

In April 2021, we launched the 'Save Our Streams' (SOS) movement to help protect our precious, globally-rare chalk streams from the brink of extinction and ask our customers to help us in this endeavour. The campaign compass has created the UK's biggest water saving initiative. A multi-channel approach using online and event experiences meant that by March 2022, over 191,000 customers had signed up to the movement getting access to free home water efficiency checks, tailored advice and free water saving devices.

Our experiential events included a giant bathtub tour across eight towns, and our comedy gig in a chalk stream – Stand-Up For Our Streams – headlined by Sandi Toksvig. SOS recently won the prestigious Drum Award for Social Purpose in the category of Best Integrated Campaign, and was recognised by our investors, InfraRed, as best practice in ESG environmental category awards.

Our genes

Customer outcomes

UNSDGs

To read the **case study** in full **visit: affinitywater. annualreport2022.com**

"I do think this is the weirdest gig, but it [SOS] is the most laudable thing that you are doing. And I am so impressed."

Sandi Toksvig

3 Journey to net zero – investing in solar power

Delivering financial, manufactured, human and natural capital value

We are currently investing £29 million in solar power, the first two sites are already operational. The initial installations generate 1MW and 0.5MW respectively. These sites will allow us to understand the costs, complexities and risks associated with solar installations, as well as testing ground mounted, roof mounted and ballast mounted solutions. A second phase of solar installations at a further 28 sites has now been approved. A third phase of solar installations is already undergoing feasibility analysis, with a fourth phase planned. Our solar programme aims to provide 10% of our total energy requirement by 2024.

Our genes

Customer outcomes

UNSDGs

To read the **case study** in full **visit: affinitywater. annualreport2022.com**

Examples of multi-capital thinking and broader value generation continued

Our genes

- Stewards of the local environment
- Helping customers use water better
- Giving customers an exceptional experience

Customer outcomes

- 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

4 Climate action – flood resilience

Delivering intellectual, financial and manufactured capital value

We know that flooding is a risk to our business and customers, and we have several actions planned to improve our resilience further. A pumping station located in our Lee community experienced flooding from the adjacent watercourse following heavy rainfall in 2014 and as a result of the site's criticality, the site was fitted with site-level flood protection. In early 2021, high rainfall once again resulted in flooding the site. We investigated the mechanisms behind that flooding incident which highlighted further actions we can take to improve resilience of the site, including natural flood management, working with local landowners to ensure assets are properly maintained, reviewing existing flood defences and forecasting.

Our genes

UNSDGs

Customer outcomes

5 Biodiversity enhancements with Hertfordshire and Middlesex Wildlife Trust

Delivering natural, social and relationship capital value

Affinity Water has had a relationship with Hertfordshire and Middlesex Wildlife Trust (HMWT) that spans over 30 years. Our partnership provides site management of Affinity Water-owned nature reserves, and joint community events to raise awareness of environmental issues, particularly around habitats and biodiversity.

Over 2021/22, we have enhanced the biodiversity of the sites through the creation of 13 ponds, reedbed maintenance, improvements to shrub land and the installation of Swift nesting boxes.

We have also engaged 1,524 people through our strategic partnership with HMWT on our sites. There have been 57 events, guided walks, talks and volunteering opportunities, clocking around 500 volunteer hours.

"It has been very exciting to be involved with the project working for the Trust and funded by Affinity Water. Our work at the three nature reserves is creating and enhancing habitats for local wildlife, while providing opportunities for people to have close-up experiences with nature."

Josh Kalms,
People and Wildlife Officer, HMWT

Our genes

Customer outcomes

UNSDGs

To read the **case study** in full **visit: affinitywater.annualreport2022.com**

Photo credited to Tim Hill.

Our commitment to public value

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

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

> We are delighted to be partnering with Affinity Water by using Heron Lake. The Access Adventures crew loves introducing people with disabilities to waterskiing and wakeboarding. It's incredible to witness the happiness this brings."

Jane Sowerby
Founder and CEO of Access Adventures

Access Adventures

We provide free access and use of Heron Lake, a beautiful wetland at Wraysbury, for the charity Access Adventures to enable people with disabilities to participate and enjoy water sports. Access Adventures use the lake for a range of watersports including waterskiing and wakeboarding to help make watersports inclusive and accessible for all by using specialised equipment, improving site access, or exploring slightly different teaching and communication methods. Affinity Water is proud to have a history of providing over 20 years' support to similar organisations at this site.

Our genes

Giving customers an exceptional experience

Customer outcomes

Providing a great service that you value

UNSDGs

To read the **case study** in full **visit: affinitywater.annualreport2022.com**

Ensuring our values are enshrined in everything we do

We have taken a number of steps to strengthen and build on our ethical approach to business. In 2021, we introduced a dedicated Ethics and Compliance function and an Ethics and Compliance framework of controls, processes and initiatives. Moving into 2022, we have continued to implement new measures that reinforce the importance of ethical values including a new Conflicts of Interest register and policy for all staff, new Corporate Document Library and rolled out Compliance training including Code of Conduct, Anti-Bribery and Corruption, Modern Slavery and Data Protection. In February 2022, we also introduced a whistleblowing service into the business, 'Luminate', which is available 24 hours a day, 365 days a year. It is an independent and confidential reporting service that has been publicised across the business and supports employees to do the right thing by 'shining a light' on issues or concerns that might be incompatible with the standards and values we set ourselves.

Our genes

Giving customers an exceptional experience

Customer outcomes

Providing a great service that you value

UNSDGs

Embracing innovation for a sustainable future

At Affinity Water, innovation and collaboration are at the heart of how we are building a more resilient and sustainable future. In 2021, we entered into the first two Ofwat innovation challenges and were delighted to have been awarded funding as lead entrant on three innovation projects. One for the 'Ofwat Innovation Fund Breakthrough Challenge', and two for the 'Ofwat Innovation in Water Challenge'. This is a great accomplishment, and these are exciting and high-profile initiatives that demonstrate our commitment to delivering innovation.

The projects are:

Water Neutrality will deliver the world's first at-scale water-neutral new housing development in collaboration with a New Appointments and Variations (NAV) company.

Smarter Tanks will explore optimised strategies for real-time top-up control for both drinking water and rainwater storage tanks.

Seagrass Seeds of Recovery will draw on nature-based solutions by creating local opportunities to increase biodiversity and carbon/nitrogen sequestration in coastal waters in Affinity Water and Anglian Water regions.

To read the **case study** in full **visit: affinitywater.annualreport2022.com**

Our genes

Stewards of the local environment

Helping customers use water better

Giving customers an exceptional experience

Customer outcomes

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

UNSDGs

Preparing for a more sustainable future

In 2021/22, we announced plans to build a new water treatment works at Sundon, Bedfordshire, to enable us to reduce the amount of water we take from chalk groundwater sources in the Chilterns.

We are committed to ending unsustainable abstraction from chalk groundwater sources in the Chilterns and beyond to help the rare chalk streams in the region.

To achieve this, we will need to bring water down through an existing pipe network from Anglian Water's Grafham Water reservoir, near Huntingdon.

Find out more about this and how we engaged with the local community on this project visit:

affinitywater.annualreport2022.com

Our genes

Stewards of the local environment

Customer outcomes

Supplying high-quality water you can trust

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

UNSDGs

Financial review

Moving forward through a challenging year

2021/22 has been another challenging year with a number of external factors including high inflation and rising energy prices having an impact on our business.

Introduction

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

The Covid pandemic had a massive impact on the usual ways society consumes water and we saw much higher water use over the last two years.

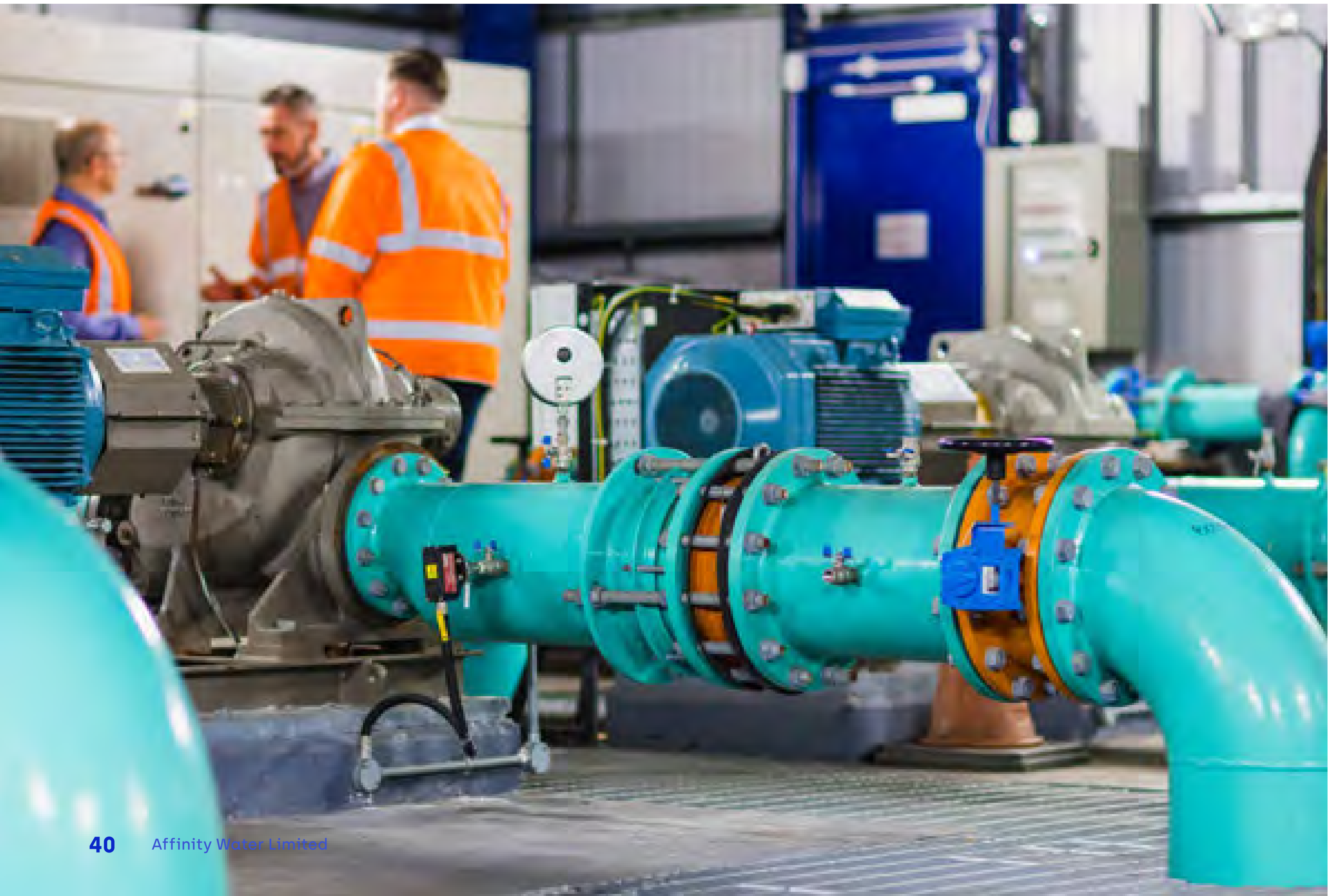
Energy prices have risen sharply over the last year and the treatment of water and distributing it to our 3.8 million customers makes energy one of our biggest costs.

Inflation has also been rising at its highest rate in 40 years and this means there are additional costs we need to pay to keep our network running and continue to supply customers with a reliable, high-quality supply of water.

Our hedging strategy for energy has protected us to some extent and will do so for the year ahead. Nevertheless, higher prices than we planned for have been a challenge from a cost perspective.

Highlights

- Green finance framework put in place and first green bond issued in October 2021
- Energy swaps transacted during the year to hedge against rising energy prices
- Awarded the Fair Tax Mark certification for the fourth successive year



2021/22 financial performance

Our financial results are prepared in accordance with Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101') and are summarised in the table below. For more information refer to the basis of preparation of our statutory financial statements on page 211.

	2022 (£m)	2021 restated[1] (£m)
Revenue	**319.7**	286.8
Operating costs	**(304.1)**	(292.6)
Other income	**19.0**	17.7
Operating profit	**34.6**	11.9
Net finance costs	**(118.1)**	(65.3)
Fair value on energy swaps	**27.9**	-
Loss before tax	**(55.6)**	(53.4)
Taxation	**(41.3)**	10.3
Loss for the year	**(96.9)**	(43.1)

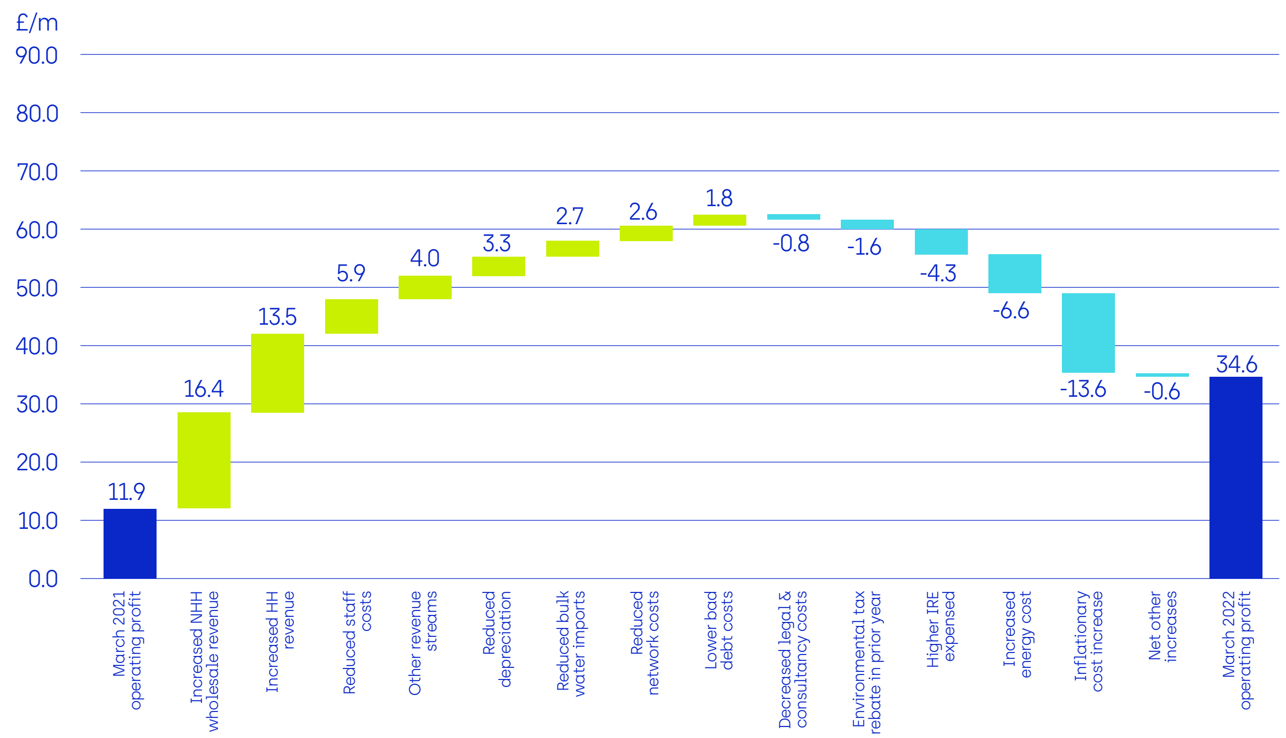
[1] for further details of the restatements, refer to page 211.

Revenue for 2021/22 was £319.7m, being a £32.9m (11.5%) increase on the prior year (2021: £286.8m). The increase is primarily due to higher non-household ('NHH') wholesale revenue, which has returned to pre-pandemic levels as a result of businesses reopening after having been closed during the first national lockdown in the prior year, as well as a 4.3% increase in household ('HH') tariffs.

Operating costs for the year increased by £11.5m (3.9%) to £304.1m (2021 restated: £292.6m) with year-on-year inflation being 8.96% higher, and higher wholesale energy prices although this was mitigated by entering into a series of energy swaps between May and October 2021. Additional expenditure was also incurred on infrastructure renewals.

Savings were made on staff costs which were lower than the prior year following a restructure during the year, and due to capitalising more staff time as work on our capital programmes increased. Network costs decreased as a result of fewer bursts, and fewer bulk water imports were required, further reducing costs. Bad debt costs were also lower than the prior year, with collection rates improving during the year despite the Covid-19 pandemic. The depreciation charge was also lower than the prior year as some significant intangible assets have now finished depreciating.

As a result, operating profit increased by £22.7m (190.8%) to £34.6m (2021 restated: £11.9m) as shown in the graph below.



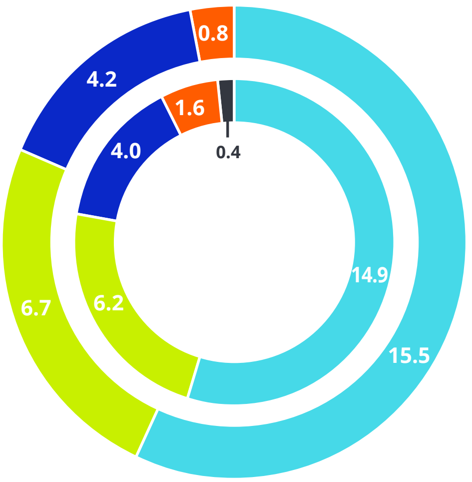
Financial review continued

The net finance expense of £118.1m was £52.8m (80.9%) higher than last year (2021: £65.3m), primarily due to increased finance costs as a result of higher accretion on our index-linked bonds, and a fair value loss[1] on inflation swaps. There was a fair value gain[1] of £27.9m on energy swaps which were transacted during the year.

Loss before tax for 2021/22 was £55.6m, being a £2.2m increase on prior year (2021 restated: loss of £53.4m).

The income tax charge for 2021/22 was £41.3m (2021 restated: £10.3m credit), consisting mainly of a deferred tax charge due to the planned tax rate increase from 19% to 25%, partially offset by a tax credit on losses recognised in the year. The effective current tax rate (74.0%; 2021: 19.0%) was higher than (2021: higher than) the UK corporation tax rate of 19% (2021: 19%). Further information and a full reconciliation of the current tax charge are set out in note 5.4 of our statutory financial statements. All our profits are taxed in the UK, and we do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities.

Our total tax contribution is set out below:



Tax contribution (£m)

- Direct tax paid
- Business rates
- Employment taxes
- Environmental taxes
- Streetworks permits

2021/22 (outer) £27.2m

2020/21 (inner) £27.1m

Cash flow

Net cash flow before tax and financing[2] for the year was £16.1m outflow being a £31.2m decrease on last year (2021 restated: £15.1m inflow). The decrease is primarily due to higher net investment in fixed assets in the current period in line with our 2020 - 25 plan. Cash generated from operations was broadly in line with the prior year with increased operating profits being offset by adverse movements in working capital.

Net debt and gearing

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.

During the period we put in place a Green Finance Framework, which aligns our strategic and sustainability priorities with our funding and financial strategy. In October 2021, we issued our first green bond with a nominal amount of £130.0m, which will be used to fund projects which are fundamental to our Sustainability Strategy and will support our environmental objectives.

Our financing subsidiaries have outstanding external bonds totalling £1,144.2m, raised in the debt capital markets and on-lent to the company on the same terms.

Our net debt[3] as at 31 March 2022 was £1,079.8m, an increase of £89.1m since last year (2021: £990.7m) primarily due to accretion on the index-linked bonds. Our gearing as measured by net debt to RCV at 31 March 2022 was 73.0% (2021: 76.0%), so has decreased during 2021/22 and remains below our internal maximum gearing level of 80.0% of RCV.

While we have higher gearing than some of our peers in the water industry, there is sufficient headroom within our financial covenants, which are only triggered at a level of more than 90.0%.

Dividends

No equity dividends were paid during the year (2021: £1.0m from our non-appointed business in order to service Group debt), reflecting the shareholders' commitment to re-invest all planned returns from the company's appointed business for the benefit of our customers.

1 Gains or losses arising from fair value changes reflect the market conditions at the time and are non-cash in nature. They are accounting entries only, impacting the income statement but not the statement of cash flows during the period.

2 This Alternative Performance Measure is calculated as the total of the following line items per the statement of cash flows (refer to page 210): 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.

Capital expenditure

Capital expenditure in the year was £139.9m (2021: £139.4m), and was incurred principally in our leakage, mains renewals, trunk main replacement, water treatment and integrated water savings programmes. This excluded £22.2m (2021: £16.5m) of infrastructure renewal expenditure, which is treated as an operating cost under FRS 101. Our total capital expenditure for 2021/22 includes an element on spend that had been scheduled for 2020/21, but was delayed due to Covid-19 restrictions in place at the time.

We are planning to phase out diesel generators and replace pumps with more energy efficient ones, as part of our carbon reduction strategy, but do not anticipate this having a material impact on our financial statements going forward.

Total expenditure

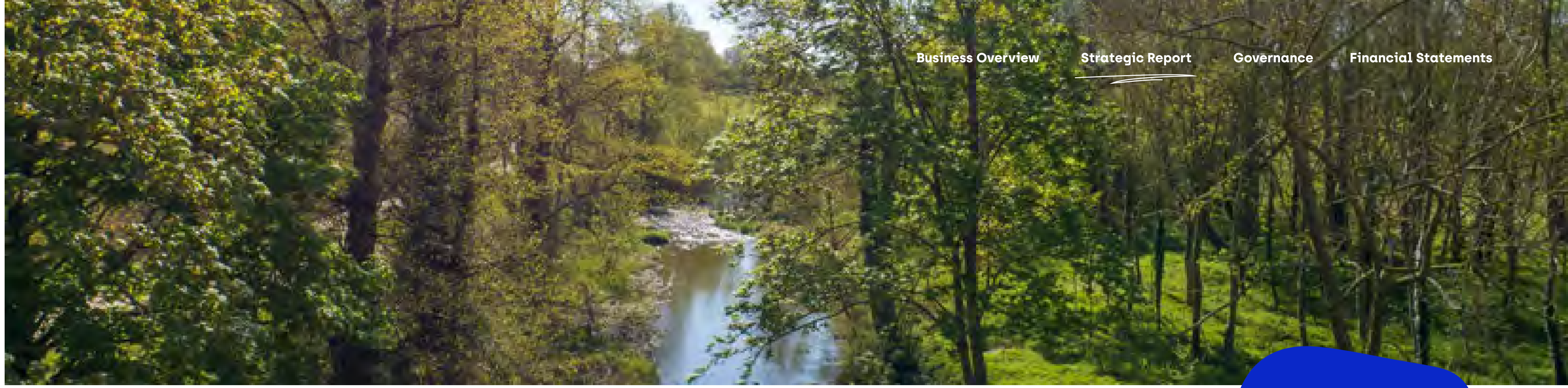
We have spent £303.0m in 2021/22, which is an underspend of £0.6m (0.2%) in outturn prices compared to our allowed expenditure of £303.6m. We planned to invest £1.44bn during AMP7 with this investment being key to maintaining resilience and making sure our customers have enough water, whilst leaving more water in the environment by delivering sustainable abstraction reductions in line with our WRMP for the 60-year period from 2020 to 2080.

Stuart Ledger
Interim Chief Executive Officer

12 July 2022

Our external environment

Leadership insights on our industry



Liv Walton
Regulatory and Strategy Director

Q How has the water industry changed over the last five years?

We've seen a very welcome focus on improving the services our customers and communities receive. Customers have no choice about who provides their water, so we need to make sure they trust us to take care of their water now and for the future. Customers expect us to improve our performance in key areas, such as reducing water wastage, while also working hard to keep bills affordable and good value for money.

There's also an increasing expectation that the industry doesn't just act as an 'invisible service' but takes an active role as a steward of the environment with a strong sense of social purpose. Our Annual Report sets out how we're protecting and enhancing our natural capital through our own activities and in partnership with others.

The industry is also changing to adapt and become resilient to the effects of climate change and population growth. Improving our resilience prepares us for unexpected external shocks so we can continue to deliver our essential public service of providing water. Resilience has certainly been put to the test recently, with the Covid-19 pandemic and the current energy crisis.

Q How are customer needs evolving and what can companies do to meet expectations?

The privilege of providing water means we must constantly listen to our customers and gain insights to adapt our services and activities. Water companies need to be agile to evolving needs so we can take care of our customers and provide an exceptional service, while also taking care of the environment.

Providing high-quality water and a reliable service is an absolute, but customers also want to make sure we are delivering on our wider commitments, such as reducing our carbon impact and protecting and improving the rare chalk stream habitats in our supply area.

The cost of living crisis has been exacerbated by various global events, which caused a dramatic hit to standards of living. It is fundamental that we continue to support those most in need and explore what more can be done with our regulators and across sectors. Our response to Covid has amplified the existing support services we have available. It also fostered a culture of collaboration between different sectors and support services to get the message out that help was at hand, especially to hard-to-reach groups.

Q What impact did Covid have on the way society consumes water?

Alongside reducing leakage and bringing online new sources of water, reducing demand is also key to ensure a long-term sustainable supply of water, increase resilience to climate change and to leave more water in the environment.

Reducing the amount of water we use also helps to reduce our energy consumption – approximately 16% of energy used in the home is for heating water.

Covid caused a shift in how society consumes water. With more people at home, household demand for water significantly increased. However, with innovative initiatives such as our industry-leading Save Our Streams campaign, using AI machine learning to identify water savings, and unique partnerships with large users of water, we are seeing a declining trend in the demand for water.

We are also looking at other exciting and innovative ways to reduce demand. Over the last year, we were thrilled that our project 'Water Neutrality at NAV sites' was successful in winning an Ofwat Innovation bid. Read more about this on page 38.

Q What needs to change to ensure a successful outcome for customers and the environment as part of the price review process?

We very much welcome Ofwat's focus for this price review to take a more long-term approach to business planning over the next 25 years. Water is a long-term business – more so than ever with the challenges we face. This is great news for the industry and certainly a step in the right direction.

In January this year, we published our own 25-year strategic direction statement, which sets out our priorities and ambitions for the long term. It will also frame our next five-year plan for 2025–30, which we're well on the way to developing. We've started our business planning process much earlier than previously to ensure we are engaging our customers, partners and communities in the co-creation of our delivery plans.

We're also focused on delivering performance for customers in the current period to 2025. We have some of the most stretching PCC and leakage commitments in the industry, and we've recently launched our 'Journey to 2025' plan to enable us to deliver exceptional service for our customers.

PR24 timeline

[Process starting earlier than in previous AMPs]

April 2023
Milestone
Publication of our draft Business Plan for customer consultation

September 2023
Milestone
Submission of our Business Plan to Ofwat

Early 2024
Milestone
Ofwat initial assessment of Business Plan

July 2024
Milestone
Ofwat publish draft Determination of Business Plan – Affinity Water to review and respond with representations

December 2024
Milestone
Ofwat publish Final Determination

Our external environment continued

Leadership insights on our industry

Steve Plumb
Director of Asset Strategy and Capital Delivery

Q Why is there a need to leave more water in the environment?

We have started to see the effects of climate change now. The industry is moving at great speed to ensure we adapt and make the environment and supplies of water more resilient and sustainable.

These climate change effects are resulting in more frequent extreme weather patterns – prolonged dry spells, followed by long periods of intense wet weather. The stereotypical constant English drizzle, which was great for water supplies and the environment, now seems to be a thing of the past.

South East England is home to some of the rarest habitats on the planet – chalk streams. Around 10% of them are in our supply area alone and support a rich variety of wildlife that is under threat. Through reducing demand, reducing leakage, moving water around networks more efficiently and bringing online new sources of water, we can leave more water in these precious environments and do our bit to make them more resilient to the effects of climate change.

We are making bold moves to tackle this now. As part of our commitment to end unsustainable abstraction, in 2021 we started our plans to bring in a significant supply of water from a neighbouring area. As part of this, a new conditioning facility will be built at our Sundon site and will allow us to reduce abstraction from sensitive chalk groundwater sites in the Chilterns. Read more about this on page 39.

Quick links

Read our Annual Performance Report 2021-22

Find out more about how we performed in 2021-22 in our Annual Performance Report here

www.affinitywater.co.uk/corporate/investors/library

75,000

tonnes of CO_2 saved over a 20-year asset life through investing in solar energy

Q How is the industry preparing to address climate change and meet net zero?

It's encouraging to see the passion and willingness to do things differently to meet the challenges of climate change, population growth and demand for water, while also neutralising the impact of our operations on the environment.

Our industry has made a bold commitment to achieve net zero for our operational emissions by 2030 – 20 years before the government's own timeframe. This is a chance to demonstrate the ingenuity of our sector and become a beacon for water industries across the world. For the future of our communities and environment, this is absolutely the right thing to do, and we must work together and at pace to deliver this.

Net zero for our operational emissions by 2030 is a massive challenge for any industry – this is just eight years away. I would argue, for the water industry, an industry that requires enormous amounts of energy to move water around its extensive 350,000km network of pipes that could stretch eight times around the world, the challenge is perhaps greater than most.

We are already taking steps to address this and, in November 2021, we began installing solar panels at two of our major strategic sites to generate 1.5MWh of renewable energy to help power the sites' operations.

Over the next three years, we will also be investing over £29 million in solar renewables alone at our sites. On completion, the solar panels will generate over 23.5MWh per annum of clean and renewable energy, saving over 75,000 tonnes of CO_2 over a 20-year asset life. Read more about this on page 80.

This is a first small step that will form a key pillar of Affinity Water's ambitious Plan for net zero. Further phases will deliver installations of solar energy, along with the introduction of wind power, hydrogen and battery storage solutions across our sites and the transition of our fleet to electric vehicles. Read more about our net zero plans on page 80.

The industry cannot act alone in the mammoth task that lies ahead over the next eight years. We know more investment will be needed to deal with this challenge. We need an open and honest dialogue with government, customers and regulators to ensure we have the right investment in place, and a detailed, practical way in how this is funded in the long term, while ensuring a fair and balanced deal for customers.

Innovation also plays a key role in tackling the climate crisis. The innovation fund launched by Ofwat is a fantastic example of how different industries can come together in a practical way to find new solutions and share best practice to the collective problems we face.

For Affinity Water, the innovation fund has led to several exciting new projects, such as seagrass seeds of recovery using a nature-based solution for carbon/nitrogen sequestration, water neutrality at NAV sites and smart water tanks to name a few. Read more about these innovations on page 38.

Our external environment continued

Our regulators

The water industry needs to comply with the laws, regulations, standards and policies published by a number of 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.

Ofwat

Ofwat – Water Services Regulation Authority

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

dwi

DWI – Drinking Water Inspectorate

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

CCW
The voice for water consumers
Y corff sy'n rhoi llais i ddefnyddwyr dŵr

CCW - Customer Council for Water

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

defra

Defra – Department for the Environment, Food and Rural Affairs

It is the government's responsibility to establish the strategic framework and policy priorities within which regulators such as Ofwat, the Environment Agency and DWI must operate. Defra sets out the policy priorities that the regulators have a particularly important role in delivering, and against which they will be held to account in respect of their independent regulatory decisions.

EA – Environment Agency

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

NATURAL ENGLAND

Natural England

Natural England is the government's statutory advisor on the natural environment established under the Natural Environment and Rural Communities Act 2006 (the NERC Act). Natural England's purpose is to ensure that the natural environment is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development.

Our external environment continued

Looking to the future – the challenges and opportunities we face

Affordability and vulnerability

The challenges that our customers face have multiplied in the last few years. The pandemic was predicted to have a significant impact on household finances at its outset, but due to the enhanced measures we put in place to help those needing it the most, along with government intervention, most customers were able to continue paying their bills.

Customers now are facing an even greater challenge due to the cost of living crisis, which is seeing household bills being squeezed on all fronts. We will continue to publicise the measures already in place to help customers, and will develop new forms of help that are tailored to our customers' needs.

Securing long-term resilience

We supply around 13% of London, along with several large hospitals and two major London airports. Maintaining a resilient supply is critical for our customers and to support the economy of the South East. The recent pandemic has shown the importance that vital services are protected.

We'll need to ensure our physical assets are resilient in the long term. Our work with the regional Water Resource Planning Groups (WRSE and WRE) will help make sure that the whole region has resilient water resources over the long term, and we'll also strengthen our corporate resilience by building capability and delivering training to colleagues.

Acting in the public interest

We are a company with purpose who acts in the public interest. Increasingly, consumers are demanding that companies go further than their explicit roles and step up to help society deliver on big and long-term challenges, such as the journey to net zero and increasing biodiversity.

We have started the work needed to quantify our impact on the six capitals, and we will set out our plans including the positive impact our activities make. We'll engage with our stakeholders to ensure that the impact we make is aligned to their priorities so that we can demonstrate we are acting in the public interest.

Climate change

Being in the South East of the country, we are likely to bear the brunt of climate change, with drier and hotter summers placing a strain on our local water resources. 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.

Ensuring we have sufficient water resources for the long term is an intrinsic part of the Water Resources Management Plan, the draft of which is due later in 2022, and this round is being developed on a regional basis through the regional Water Resource Planning Groups.

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 have committed to end unsustainable abstraction. 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.

Population and economic growth

Forecasts from the ONS indicate that the population of England will increase by around 8% by 2041, and an estimated one million new homes are needed in the Thames Estuary, to support economic growth in that area. 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.

Our stakeholders

Our stakeholders play an integral part in helping to shape the service we provide, how we plan for the future and how we create value.

Our stakeholders

We engage with internal and external stakeholders to better understand what matters most to them and how we can further involve them in our decision-making.

Together with our stakeholders, we tackle challenges head on and determine what needs to be delivered to ensure we continue to produce a high-quality, reliable supply of water while taking care of the environment and providing an exceptional service for all.

The communities we serve are diverse and we welcome the broad range of perspectives that this brings to help improve our services and strategic plans.

Trust is critical to delivering our purpose. We must continue to build trust with our stakeholders through demonstrating successful delivery of our commitments and be open and transparent when we fall short of their expectations. Building a trusting relationship ensures we can continue to effectively engage with our stakeholders in a constructive manner and shape the future of our essential public service together.

Affinity Water's stakeholders

Stakeholders we generate value for

Stakeholders that influence what we do

Board's consideration of stakeholders in decision-making

Our Section 172 statement explains how the Board satisfies itself that relationships with each key stakeholder group are managed effectively and that there is sufficient visibility of relevant stakeholder engagement activities in the boardroom to inform decision-making and delivery of strategy.

Read more about section 172 statement on page 86

Key stakeholder interests

Customers

Why engagement is important

Customers rely on water as an essential service while Affinity Water's business model is based on the payment of water bills by customers.

Key interests

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

Communities

Why engagement is important

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

Key interests

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

Employees

Why engagement is important

The success of Affinity Water depends on the shared talents, skills and values of the people who work for it, and its ability to attract and retain a talented future workforce.

Key interests

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

Suppliers

Why engagement is important

Affinity Water relies on its supply chain for delivery of 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.

Key interests

- Innovation
- Responsible supply chain
- Health, safety and wellbeing

Shareholders

Why engagement is important

Confidence and support for Affinity Water from those that invest in it is required for the strategic direction of Affinity Water and for the way Affinity Water is governed.

Key interests

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

Regulators

Why engagement is important

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

Key interests

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

Preparing for a different world – developing our Strategic Direction

In 2021, we started working on our Strategic Direction Statement (SDS) to determine where we wanted and needed to go as a business over the next 25 years.

We learnt from our PR19 experience that we didn't go into that planning with a clear strategy on what we wanted to achieve in the longer term, beyond the immediate five-year plan. For PR24, we have considered this and are doing things differently to ensure a successful outcome.

So, our first question was: what do we want to be and where do we need to be as a business in the longer term? When this is clear, we can decide what we want or need to get done in the next five-year period to bring us towards that future, and that should help determine our strategy for PR24. That is why we have spent some time developing our SDS in 2021/22.

To begin this process, we imagined the future in 2050 and considered various scenarios depending on how the world could evolve with carbon emissions, climate change, population growth, regulations and government policies or interventions.

We then took those scenarios and met with regulators, government bodies, communities, Board members and employees, and discussed this future with them and asked their thoughts on what was important for Affinity Water to address and what their priorities were.

Our stakeholders told us that 'we need to be bold' and 'we need to act fast' as much change will be required to build our resilience and prepare for a very different world in 2050.

As a result of this engagement, four themes emerged, which we call our 'Ambition Statements'. These long-term ambition statements, which were also tested with customers, will help to guide our PR24 strategy and Business Plan for 2025–30.

Read more about our strategy visit affinitywater.co.uk/plan

Our strategy

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

Our purpose

Why we exist

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

Water resources management plan

Every five years, we produce a Water Resources Management Plan to ensure water is available for our customers and communities.

Our plan sets out how we will provide a reliable, resilient, efficient and affordable water supply to customers from 2020–80, while protecting the environment.

Our plan addresses the need to balance the availability of water supply with the demand for water from customers. We also continue to strive to help protect the environment and improve the resilience of our water supplies to droughts and other challenges.

Long-term strategy 25 years+

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

Our Strategic Direction Statement ambitions (2050)

The systems that Affinity Water will work within:

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

We will work with our customers and communities to restore the environment into a sustainable state where it can re-generate itself so that 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

Link to SDGs

The people that Affinity Water will work with:

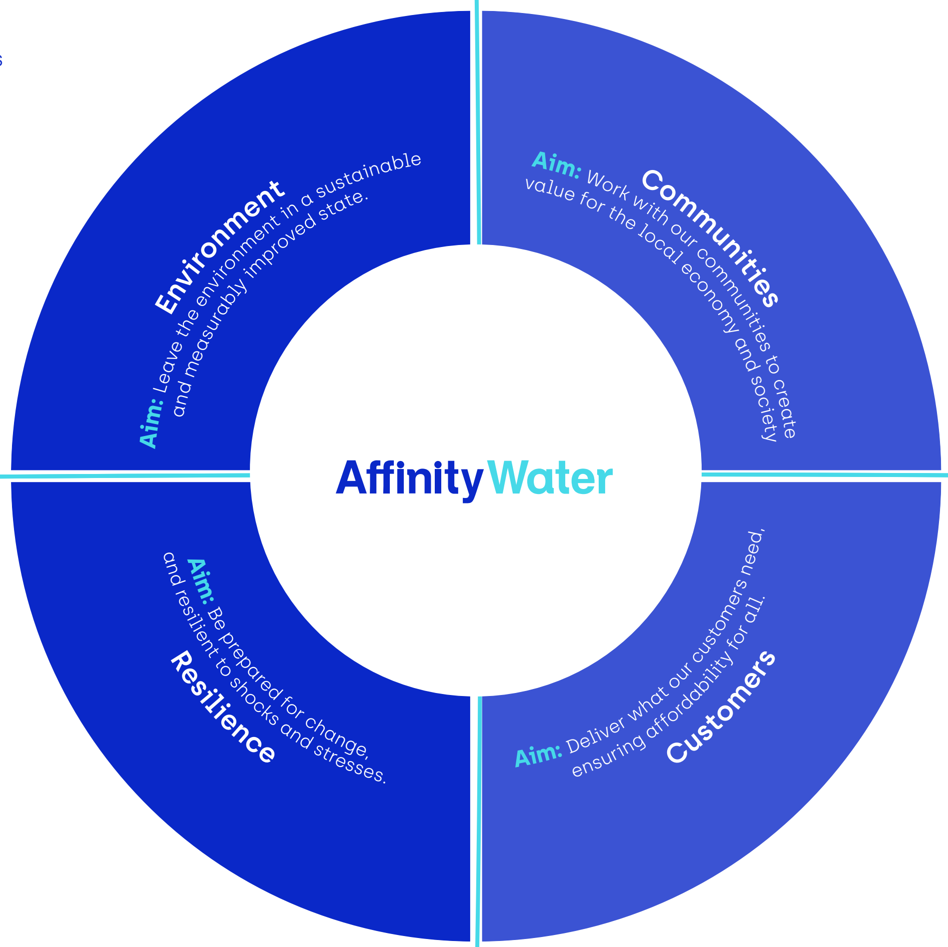
Aim: Work with our communities to create value for the local economy and society.

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

Objectives:

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

Link to SDGs



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

Link to SDGs

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

Link to SDGs

Short-term strategy 5 years

Our customer outcomes (till 2025)

Supplying high-quality water you can trust

- Maintain high-water quality
- Catchment management
- Water treatment

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

- Abstraction reduction
- PCC reduction
- Leakage reduction

Providing a great service that you value

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

Minimising disruption to you and your community

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

Read more about **our customer outcomes** on **pages 56 and 57**

Our customer outcomes

Our Business Plan for 2020-25 includes a total of 28 stretching performance commitments that will ensure we deliver our four customer outcomes.

Overview of our performance

We have made good progress this year and our performance has improved across all of our key customer commitments.

We have been focusing on our top eight performance commitments as we believe these are the ones our customers care most about. Plus, if we get these ones right, we believe this will lead to high performance in all 28 commitments.

We have had some great results with some of the best performance in the industry in a number of key areas, such as our Interruptions to Supply score at just 3 mins and 43 seconds and water quality measure (compliance risk index) of just 0.87 against a target of 2.

Whilst we have not quite hit our water demand target (per capita consumption – PCC), we have still achieved huge savings in unprecedented times, which we believe makes us industry leading on absolute reduction volume and the trend is for our PPC to decline further.

Unfortunately, we narrowly missed our 2021/22 leakage reduction target – however we have driven leakage down to its lowest ever level we have had as a company. We have already reduced leakage by 10.5%, which puts us in a good position to meet our 20% reduction target by 2025.

We continue to work diligently to support those most in need, especially during the current cost of living crisis with over 96,000 customers on our support tariffs. We also have 94,000 signed up to our Priority Services Register.

Read more about **how we performed against these outcomes** in our performance highlights on **page 16**

Our customer outcomes:

Supplying high-quality water you can trust

Commitments

- Reduce the number of contacts about appearance, taste and odour to 0.67 per thousand population by 2024/25.
- Meet water quality standards on compliance failures by scoring less than 2 annually in DWI's new water quality measure CRI.

Read more about **supplying high-quality water you can trust** in the operational performance section on **page 58**

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

Commitments

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

Read more about **making sure you have enough water, whilst leaving more water in the environment** in the operational performance section on **page 60**

Providing a great service that you value

Commitments

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

Read more about **providing a great service that you value** in the operational performance section on **page 62**

Minimising disruption to you and your community

Commitments

- Reduce supply interruptions to customers to five minutes in 2024/25.
- No more than 320 properties affected by a supply interruption per year of more than 12 hours duration.
- Improve IT resilience by a 29% reduction in the impact of disruption to customers and employees by 2024/25.
- Reduce the properties at risk of receiving low pressure to 1.118 per thousand properties by 2024/25.
- Reduce the average time each property experiences low water pressure to less than 8 hours 42 minutes in 2024/25.
- To have no customers at risk of experiencing severe restrictions in a 1-in-200-year drought on average over 25 years.
- Reduce the number of mains repairs to 142.3 per thousand kilometres of network.
- To keep outage of production capacity below 2.34% between 2020–25.

Read more about **minimising disruption to you and your community** in the operational performance section on **page 64**

Our operational performance

Supplying high-quality water you can trust

Maintain high-quality water

During 2021/22, we continued to supply high-quality drinking water by using the latest technology and sophisticated monitoring systems at our treatment works, regularly inspecting the integrity of our storage reservoirs and operating our distribution systems in a manner that ensures water arrives at our customers' properties in the same condition as it leaves our water treatment works.

Our Compliance Risk Index (CRI) score, the measure used by the Drinking Water Inspectorate (DWI) to assess water companys' performance with regards to water quality, was 0.87 for 2021. This was well within the deadband of 2 for our performance commitment and was one of the leading scores across the industry in 2021.

Water treatment, distribution and supply

In 2021/22, we improved our energy efficiency by 2% across our production sites and we are pleased to announce that we are now running our first ever solar farm site to support our Chertsey Water Treatment Works, and are imminently going live with a solar farm at our Walton Water Treatment Works. This will provide up to 1200kw of power, and will help to reduce our carbon footprint and our reliance on grid electricity.

We continued our work to seek chemical optimisation to promote energy efficiency while supporting the environment through trialled source reduction. We aim to reduce our energy usage and carbon emissions across all our sites as part of the formulation of our energy strategy for the next 20 years, supporting our 2020-25 Business Plan and our WRMP.

We have successfully completed several important projects with treatment upgrades to three operational sites in the Western area to mitigate the impact to HS2 works. We have also rolled out new digital systems for our operational teams to deliver planned maintenance work efficiently and effectively, helping to improve the customer experience.

Our operational teams responded effectively during Storm Eunice and Storm Franklin with very minimal customer impact. This was an unprecedented event, which impacted power grids across the UK and lasted for several days. However, due to the efforts of our operational teams, most customers were kept in supply.

We are investing in our people and increasing the skills of our teams. In 2021, we launched level 3 and Level 4 Diplomas in Water Treatment and Operations with the Certification and Assessment Board for the Water Industry (CABWI) and completed the upskilling of our operatives through an Electrical and Mechanical Apprenticeship.

Our performance at a glance

0.87

CRI score – one of the leading scores across the industry in 2021

Working with farmers to improve soils and sources of water

For the third consecutive year, we ran an innovative scheme in the Lea Community incentivising farmers to grow cover crops over the 2021/22 autumn/winter period. We used the EnTrade, an environmental trading platform, where farmers can bid competitively for funding in a reverse auction. Our aim was to work in partnership with farmers and landowners to improve groundwater quality and protect chalk streams by reducing the amount of bare agricultural soil over winter. Cover crops have a range of benefits including nutrient and carbon capture, reduced run-off into rivers, flood and drought resilience, soil health improvement and increased biodiversity. The auction was successful with funding for over 1,200 hectares of farmland to grow cover crops this winter, compared to 800 hectares in 2020/21.

We also delivered a programme of successful pesticide reduction schemes across our supply area with over 80 participating farms covering eligible arable land over 122km^2 (12,247 hectares). These schemes have significantly reduced pesticides lost to water and provided enhanced resilience to drinking water quality and protection of aquatic ecology in our rivers.

- The aim of this project is to incentivise farmers in the Upper Lea to grow a crop over winter not for food production, but to reduce losses of nitrate that could otherwise leach into the chalk aquifers that are used to supply drinking water.
- We partnered with Cambridge Water, the Farming and Wildlife Advisory Group East and EnTrade to run a catchment 'reverse auction', where farmers could bid for funding for cover crops on their land.
- Twenty-three farms covering over 1,200 hectares of land had successful bids, which reduced an estimated 58 tonnes of nitrate losses into the chalk aquifer.
- This is the third year of this scheme, and an estimated 119 tonnes of nitrate have been prevented from contaminating groundwater over the period.

Our genes

- Stewards of the local environment
- Helping customers use water better
- Giving customers an exceptional experience

Customer outcomes

- Supplying high-quality water you can trust

UNSDGs

Our operational performance continued

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

Our challenge

We have a high dependency on groundwater sources, which account for around 60% of the water we supply and need to be replenished each year by winter rainfall. Other than aquifers, we do not have significant storage for untreated water. We need to plan effectively to adapt to environmental changes quickly and ensure we operate in a way that leaves more water in the environment while protecting the water supplies of our customers.

Climate change is believed to be making periods of prolonged dry weather more severe, as well as intensifying summer rainfall events. We saw periods of very intense rainfall through the summer of 2021, which followed high levels of rainfall through the winter of 2020/21. Groundwater levels have remained healthy throughout 2021/22, despite the winter being dry. It is important that we can adapt to the challenges that climate change will bring and continue to use water more wisely.

We monitor our groundwater levels closely in accordance with our Drought Management Plan, and work with environmental non-governmental organisations, regulators and catchment groups to recognise and communicate instances of environmental drought to our customers. We will publish our new Drought Management Plan in summer 2022.

All three of our supply regions have been designated as areas of 'serious water stress by the Secretary of State, with an expected significant increase in population numbers across our supply areas. We recognise the importance of resilience and long-term planning in adapting to increased water stress and have been working hard to reduce abstraction, leakage and customer consumption.

Abstraction reduction

We are working with stakeholders to address the environmental challenges of protecting our precious local rivers and habitats while encouraging behavioural change.

Most of the world's chalk streams are in the South East of England with many flowing through our supply area. They can be particularly at risk of drying up if the water table in the chalk bedrock is lowered by drought progression or locally by abstraction, especially where these rivers have previously been modified.

As part of our National Environment Programme (NEP), we are carrying out river restoration work and habitat improvements across our catchment areas, where we are also reducing water abstraction.

We also operate 19 sources under the Abstraction Incentive Mechanism (AIM), which incentivises reduced abstraction during low flow periods, to leave more water in the environment.

Per capita consumption

We're pleased to see great progress towards our challenging Per Capita Consumption (PCC) ambition to reduce demand for water.

PCC is the metric used by the water industry to measure average individual water use.

While we have not quite hit our target, we have still achieved huge savings in unprecedented times, which we believe makes us industry leading on absolute reduction volume and the trend is for our PPC to decline further.

During the pandemic, water use changed dramatically after the first lockdown was introduced. In 2020/21, PCC in our area rose to an average of 171 litres from a pre-Covid average of 155 litres per person.

However, we are now starting to see a declining trend and in 2021/22, PCC in our area reduced to an average of 157 litres per person.

We've seen a shift in the way people manage their time and use water. More remote and flexible working has shifted demand from commercial office buildings into our homes, creating a better balance for many which seems likely to stay.

We think it's unlikely we'll see a full return to pre-pandemic working patterns and we need to look at our forecasting to make sure we can better reflect how we expect PCC to reduce over time. This year has given us some great data to take that forward.

We're not quite back to pre-pandemic water usage levels overall, but despite this once-in-a-generation shift, we have made significant reductions in overall water wastage (combined Leakage and PCC).

We're confident our strategy will deliver the savings we want to see over this five year business planning cycle to 2025.

Our metering programme has been accelerated, giving our customers visibility of their usage and creating more opportunity than ever to save water, energy and money. We've exceeded our target here with over 50,000 meters fitted last year alone, which means approximately 65% of households in our central area are on a metered supply.

Our innovative SOS Save our Streams Campaign, the biggest water company customer campaign in the UK resulted in 191,000 sign-ups in 2021/22. That means more customers than ever before are being supported with bespoke help to waste less water.

Our PCC performance is detailed on page 27.

Leakage

It is essential that we continue to work hard to reduce leakage on our network; our customers expect us to lead the way. To show our commitment to meeting that expectation, we have set ourselves one of the highest reduction targets in England and Wales for 2020-25

The second year of our five-year business plan has been particularly demanding as it has the highest single year reduction targets of all the five years in the period, and we have had to balance this while making sure our people remain safe, while operating in a Covid-impacted environment.

Despite the challenges, we have managed to significantly increase our leakage reduction activities, which has produced a step change in our performance, and we have delivered our lowest ever volume of leakage. While we narrowly missed our 2021/22 leakage reduction target, we have already achieved 10.5% of our total five-year reduction target, which puts us in the best place to deliver on our full commitment of a 20% reduction by 2025.

We continue to work closely with our supply chain as we trial innovative new detection methods and equipment to ensure we are doing all we can to reduce leakage. This year, we have trialled innovative satellite leakage detection, implemented an AI solution using an array of sensors across our network, deployed new acoustic detection devices and increased the use of our intensive leakage surveying technique.

Our leakage performance is detailed on page 27.

Investing in our network for a sustainable future

Hemel to Stonecross trunk main

To enable sustainability reductions from groundwater to take place across our supply area, we are investing in upgrading our assets and constructing new ones to allow us to move water around our area more efficiently and bring in water from neighbouring areas.

This includes over 30km of new water supply mains, new pumping stations capable of moving millions of litres of water every day and new treatment facilities as we continue to take care of our customers, water and the environment.

In our Colne community, we are reducing the amount we take from groundwater sources by over 9 million litres of water every day by 2025. To do this, we are investing in a number of projects and, in 2021, we started to build a new 8km water supply trunk main between Hemel Hempstead and St Albans.

Not only will this increase the resilience of our network and ensure a long-term, sustainable supply of water for the community long into the future, it will also allow us to reduce reliance on local sources of chalk groundwater to help rare chalk streams, such as the River Ver.

Our genes

- Stewards of the local environment
- Giving customers an exceptional experience

Customer outcomes

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

UNSDGs

Our operational performance continued

Providing a great service that you value

Partnership with Kent County Council

We identified 810 customers meeting certain criteria that were at risk of or experiencing water poverty. Kent CC provided a grant of £250 for each customer from the government household support fund, which was then credited directly to the outstanding water account balances. By working in partnership, we were able to support with the funds being distributed to customers quickly.

Payment of £202,500 received from the government household support fund and passed a payment of £250 to 810 customers' water account balance.

Our genes

Giving customers an exceptional experience

Customer outcomes

Providing a great service that you value

UNSDGs

96,000

customers signed up to our social tariffs

We are privileged to serve our communities. Being the monopoly supplier and steward of a precious resource for future generations, we are acutely aware that we must continually invest in building trust and legitimacy with our customers and make ourselves accountable to our communities for our performance.

By continually increasing our focus on customers, we strive to deliver improvements in the service we provide and fulfil our vision of being the UK's leading community-focused water company.

Improving customer experience

Our C-MeX (Customer Satisfaction Measure) performance continues to build momentum with improvements in our rankings vs last year, achieving 14th out of 17 water companies (15th the previous year), and narrowly missing out from 13th. We have clear plans in place to achieve our ambition of top quartile performance by the end of 2025. Years one and two were focused on building the right foundations to level the playing field and implement capabilities for our future growth. Now our focus is on driving the cultural shift needed to improve our customers' experience, focusing on the things they value most right across customer operations.

We needed to understand customer needs and preferences to best satisfy them. Through listening to our customers, seven core drivers to satisfaction have emerged. These are: positive attitude, knowledgeable service, fast resolution, being kept informed, promises and commitments kept, effective communications and ease of interacting.

Improvement plans focusing on these drivers have now been designed and implemented, along with investing more within the service arena, to ensure we deliver a sustained improvement in the important areas to our customers. We are specifically focusing on resolving more requests first time and faster than before. We are rolling out new technology and have improved our ways of working to proactively communicate with customers on a one-to-one basis, at scale.

We are currently enhancing our customer insight capability with the deployment of a leading analytics capability tool, which will enable us to better understand and respond to changing customer needs and priorities in real time. In September 2021, we launched our online customer community to enable us to co-create with customers, ensuring we deliver our experiences in the way that they want and expect from their water supplier.

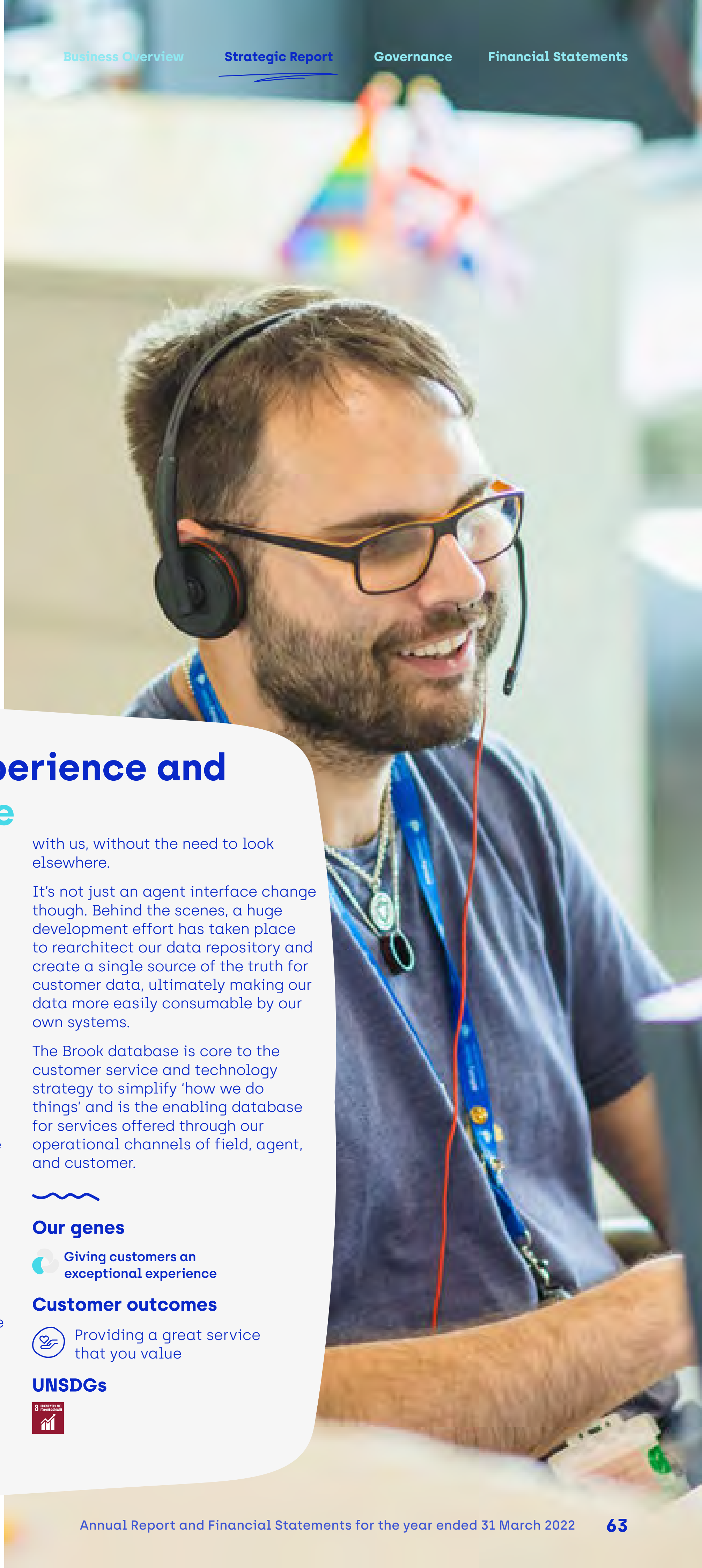
We have over 500 customers registered and actively taking part in the community, with activity to develop in-depth conversations with customers, whose views will be utilised to develop the services of the future and underpin our PR24 business plan. These initiatives will continue to be developed throughout this year and beyond.

Keeping bills low

Our water bills are controlled by the price limits set by our regulator, Ofwat. Our 2020–25 price controls set an initial fall in revenue, followed by real terms increases in the four years to 2025. In 2021/22, our average household water bill was about 4% higher than the previous year because we increased our charges in line with our price control, and because bills were affected by changes in water demand from pandemic effects.

In our communities, some of our customers can struggle to afford household bills including water. Most of our customers receive a combined bill for both water and sewerage charges so affordability can also be aggravated by changes in sewerage charges set by wastewater companies. This year, the average increase in the combined water and sewerage bill in our area was about 3%.

We help alleviate affordability difficulties by offering a discounted tariff to eligible, low-income customers. This year, we also delivered a targeted programme of customer engagement to improve awareness and take-up of the help we offer with bill payment. In addition, we redesigned our bills to make them clearer and to encourage our customers to save water to help reduce bills. Our bill provides context about the customer's water use and provides comparison with similar-sized households in their area.



Brook Field Experience and Contact Centre

Over the last year, we have been developing the Brook FX app, which is due to launch summer 2022 to our field teams, starting with customer service technicians.

The new app delivers a step change in experience, with Affinity Water moving away from legacy obsolete technology and work order management processes, to a mobile-first experience delivered via a custom-built app for iPhone.

The app features streamlined workflows, user friendly design, real-time information, and personalised actions, which, when combined, drive significant time efficiencies for our teams in the field.

Brook Contact Centre portal will launch to our advisors this year with a simpler interface for agents to use. Agents currently use multiple screens to access disparate systems holding customer data, which is time consuming for both the agent and the waiting customer.

With Brook Contact Centre, all data relevant to a customer record will be presented on a single screen, giving the agent a complete picture of the customer and their interactions with us, without the need to look elsewhere.

It's not just an agent interface change though. Behind the scenes, a huge development effort has taken place to rearchitect our data repository and create a single source of the truth for customer data, ultimately making our data more easily consumable by our own systems.

The Brook database is core to the customer service and technology strategy to simplify 'how we do things' and is the enabling database for services offered through our operational channels of field, agent, and customer.

Our genes

Giving customers an exceptional experience

Customer outcomes

Providing a great service that you value

UNSDGs

Our operational performance continued

Minimising disruption to you and your community

Maintaining and improving the health of our assets is essential to ensure we can operate 24 hours a day, 365 days a year, and to make sure we promptly respond to emergency failures.

Investing in our assets is critical to delivering on our purpose, moving towards a more sustainable supply of water and taking care of our environment – now and for future generations.

Reducing supply interruptions

Customers affected for more than three hours

We believe we have achieved one of the best performances in the industry in 2021/22 to reduce the impact of supply interruptions to our customers.

We are very pleased to report that our 'Interruptions to Supply' measure is just 3 minutes and 43 seconds – well below our target of 6 minutes and 8 seconds.

To clarify: this doesn't mean all of our customers were interrupted for this amount of time. It's an average of those who have been affected for more than three hours applied to the whole customer base.

Read more about how we achieved this fantastic result on page 65.

Customers affected over 12 hours

The work we have undertaken to supply interruptions has borne considerable improvements in the industry common metric of average minutes per connected property (see above); however, the number of individual properties impacted for over 12 hours is still above committed performance of no more than 320 properties.

Considering the fantastic achievement of our interruptions to supply score, we are bitterly disappointed of not being able to meet this performance commitment, and will re-focus efforts to drive this down below the target next year through increasing local resources, improving response times and finding alternative methods of supplying water during incidents.

Over the last year, 477 properties were affected for more than 12 hours, with 421 of those a result of a single major burst incident with no other option for maintaining the mains water supply.

Investing in our assets

We continuously invest in our physical assets, both above and below ground, as well as meeting our environmental obligations such as biodiversity. We balance costs, risks, and performance to ensure we prioritise our investments. This year, we have spent nearly £150 million to meet our commitments to our customers and the environment.

To minimise disruption in our communities, we have a proactive approach to replacing our underground assets based on age, condition and burst history. In 2021/22, we replaced 24km and flushed 268km of our smaller diameter pipes. We have delivered a very successful trial on full lead service pipe replacement in our Brett region by working with our customers and supply chain to maximise uptake. We have installed over 50,000 meters as part of our universal metering programme to help customers use less water.

We completed the agreement with Anglian Water to purchase Sundon reservoir. This investment allows us to maximise our use of our import from Grafham Water to provide resilient water supplies for our customers.

We've continued to evolve Affinity Water's 'digital twin' – a digital representation of our pipe network, water treatment assets, and our customers and their combined effect on hydraulics. All of this helps us to find leaks faster, identify consumption hotspots and, through simulations, optimise the way we move water around our network.

Reducing risk of low pressure

Customers have a right to expect minimum pressure and flow at their property, set by our regulator and applicable to the whole water industry. Persistent low pressures can impact our customers' daily lives, for example taking longer to fill sinks and baths and, in extreme cases, affecting the performance of water using appliances in the home.

Our performance against our low-pressure commitments remained challenging, but has improved significantly against the previous year when the full impact of a warm, dry spring/summer coincided with Covid lockdowns. We believe that the main impacts from Covid were much less pronounced in 2021/22, but our pressure loggers continued to see a high number of low-pressure incidents above our performance targets.

The low pressure KPI definition is: Properties at risk of receiving low pressure, per 10,000 connections, which we receive the financial penalty against for the regulatory target. Our actual performance against the target for year two is 48.2 against the annual target for the year of 1.513.

We recognise that we need to keep improving in this area and there is much more we need to do. We are committed to driving this down further and aligning with customer expectations for low-pressure performance.

Over the next year, we are placing additional focus on reducing low-pressure incidents. This includes a more integrated approach working across departments and the creation of a Low-Pressure Steering Group to identify the deeper root causes of low-pressure incidents. The plans will consider improvements to our operational delivery, especially where separate production and network issues combine to create complex low-pressure incidents that are not just the result of single cause and effect.

This will help us to recognise where low-pressure incidents occur faster, identify common trends and allow us to find resolutions that offer the best compromise to resolve issues at the lowest cost for our customers.

Evolving our digital twin

Over the last 12 months, our IT team have been working on evolving and building out a 'digital twin' for Affinity Water.

A digital twin is a digital representation of a physical object or system. The technology behind digital twins has expanded to include large items such as buildings, factories and even cities – in our case, we represent our pipe network, customers and various assets as part of it, and their combined effect on hydraulics with a view of finding leakages faster, identifying consumption hotspots and behaviours, and optimising our water network.

Affinity Water's digital twin takes in real-world data about a physical object or system and produces predictions or simulations on how these will be affected in a variety of conditions.

Our data science experts research the physics that underlie the objects or systems being mimicked and use that data to develop models that simulate the real-world original in the digital space.

This innovative digital technology is helping us to find and fix leaks faster than ever before, which ultimately helps to leave more water in the environment. However, we are not stopping there and are planning lots more with our digital twin to continue to drive down interruptions to supply, mains bursts, demand for water and low pressure.

Our genes

- Stewards of the local environment
- Helping customers use water better
- Giving customers an exceptional experience

Customer outcomes

- 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

UNSDGs

Water always on – driving down interruptions to supply

We have made great progress in one of our key customer commitments over the past year to 'Minimise disruption to you and your community'.

We are very pleased to report that our Interruptions to supply score is just 3 minutes and 43 seconds, which we believe makes us one of the top performers in the water industry and well below our target of 6 minutes and 8 seconds.

The definition of this performance commitment is the average number of minutes lost per customer (for the whole customer base) for interruptions that lasted three hours or more.

To achieve this result, we have had a significant change in mindset with our primary focus being 'water always on'. Our teams have transformed their approach and processes, we invested in more equipment to keep water flowing during repairs and invested more in training our people by bringing in our own inhouse restoration teams.

Over the next 12 months, we will be utilising our digital twin system, which will give us much faster response times to incidents when they happen, aiding field teams in locating failures, and this will ensure we can restore supplies faster than ever.

Our genes

- Stewards of the local environment
- Helping customers use water better
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Customer outcomes

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

UNSDGs

Index of key performance indicators

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

KPIs

The first two years of the 2020–25 period have now been completed. We are required to report our performance against targets as set by Ofwat in our final determination 2019. These targets include the performance commitments made in our Business Plan. Our performance in relation to these targets for 2021/22 is analysed in the tables below.

We are forecasting we will achieve 19 of our 28 performance commitments.

Ten of these are common performance commitments and nine bespoke.

Operational

Water quality

Compliance Risk Index (CRI) score

Performance

Actual: 0.87

Target: 2.0

Link to our customer outcomes:

KPI linked to remuneration

The Compliance Risk Index (CRI) is a measure to inform the risk arising from treated water compliance failures. Our score of 0.87 is our best performance against this measure to date, continuing the downward (improving) trend in performance seen over the last four years. While the ultimate target for water quality would be a score of 0, our score of 0.87 is likely to show us as one of the best performing companies in this important area of performance. Our thorough investigation of the exceedances resulted in very few recommendations from the DWI.

Leakage

Average annual water leakage from our network (megalitres/day)

Performance

Actual: 10.5% (since base year)

Target: 11.1%

Link to our customer outcomes:

KPI linked to remuneration

This measure is reported as a percentage reduction in a three-year average of leakage against a baseline level of 2017–20 average over three years. Our leakage for the 12 months of 2021/22 was 161.5Ml/d; a reduction of 16.6Ml/d from the previous year.

During the year, we made significant investment in resources, applied new technologies and applied the new customer-side policy allowing free repairs on significant leaks. Despite this, we were unable to meet the three-year average reduction target of 11.1%.

We knew this would be a challenging year, due to the impact of the prior years' performance, combined with a steep target reduction of achieving an 8.4% drop in a single year (the largest reduction required in any year of the AMP7 period). However, we are in a strong position for year three and are well placed to deliver on the remaining years of the AMP.

PCC

Average water use (litres/person/day)

Performance

Actual: 4.1% increase (161.5 l/p/d (based on a three year average))

Target: 4.9% reduction (147.5 l/p/d)

Link to our customer outcomes:

KPI linked to remuneration

During 2021/22, we recorded PCC of 157.9 l/p/d, which is a reduction from 171.6 l/p/d recorded in 2020/21. However, this did not achieve the targeted reduction of 4.9% in the three-year average from the 2017–20 baseline.

PCC is a measure of water usage in the home. Our three-year average is heavily influenced by the unprecedented demand for water in the home seen in 2020/21. This level of demand was due to the combination of hot summer weather and people staying at home due to the Covid lockdown. The effect on PCC of people spending more time at home is still being felt, and is affecting performance, despite the significant reduction seen in 2021/22 compared to 2020/21. Water demand has not returned to pre-pandemic levels, but we remain committed to reducing PCC by the required 12.5% at the end of the AMP period.

We have undertaken major campaigns over the year with our flagship SOS 'Save Our Streams' campaign, home water efficiency checks and innovation projects targeted to water use reduction.

Key

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

Performance key

Increased

Decreased

Performance met

Performance not met

C-MeX

(Score)

Performance

Actual: 14th position

Target: mid table

Link to our customer outcomes:

KPI linked to remuneration

Customer Measure of Experience (C-MeX) is a mechanism to incentivise water companies to provide an excellent customer experience for residential customers, across both the retail and wholesale parts of the value chain. C-MeX is based on a league-table comparison of performance by the other 17 water companies in England and Wales.

Our C-MeX score for 2021/22 was 76.57 against an industry median of 80.43. The rating represented an improvement on the prior year's performance, moving our position up one place in the company rankings.

Although written complaints increased by 14.8%, this was driven by the Universal Metering Programme installation rollout as, during 2021/22, we have installed over double than in the previous year. While the increase in UMP installations has inevitably resulted in an increase in metering-related contacts, the percentage of written complaints to meters installed remained at encouragingly low levels, and continues on a downward trajectory to 0.57%, down from 1.63% in 2019/20 and 0.60% 2020/21

The percentage of escalation (second stage complaints) has also fallen year-on-year -0.1pp to 3.4% of written complaints.

D-MeX

(Score)

Performance

Actual: 8th

Target: mid table

Link to our customer outcomes:

KPI linked to remuneration

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

Our D-MeX score during the year ended 31 March 2022 was 85.54 compared to an industry median of 85.26. We were placed 8th out of 17 companies in the industry league table; an improvement from 10th in 2020/21, and 16th in the 2019/20 shadow reporting year. We have seen consistent improvement in position quarter-on-quarter during this time.

Mains repairs (due to bursts)

(Number per 1,000km mains)

Performance

Actual: 100.2

Target: 148.6 or less

Link to our customer outcomes:

KPI linked to remuneration

We have comfortably met our target of ≤148.6 repairs per 1,000km of mains in the year. It should be noted the number of mains repairs required in any year is heavily influenced by weather, with extremes in both hot and cold weather adversely affecting mains burst rates. In this respect, weather in 2021/22 was unusually benign, while that experienced in 2020/21 saw significant extremes of both hot and cold. By comparison, our 2020/21 'performance' was some 58% higher at 158.9 repairs per 1,000km of main.

Mains repairs need to be viewed over a longer period to understand the overall trend where year-on-year peaks and troughs can be taken into account and our overall improving trend in performance understood. We continue to focus on reducing night pressures, reducing volatility of our network, and continuing analysis of where and when bursts occur to inform our mains renewals programme. We are working with the Met Office to develop a weather prediction tool to understand when the greatest risks to mains occur, during this time planned works can be postponed ensuring any undue pressure of the network is minimised.

Key performance indicators continued

Operational continued

Water supply interruptions >3 hours

(average minutes per property, water supply interruption)

Performance

Actual: 00:03:43

Target: 00:06:08

Link to our customer outcomes:

KPI linked to remuneration

We have, again, achieved the target for this measure, and further improved by over two minutes on our 2020/21 performance. This is a significant achievement. Considerable improvements have been made over the last few years, adopting a 'water always on' mentality and reducing our impact on customers. To put the improvements in performance into perspective, we were over 13 minutes in 2019/20 and over 32 minutes in 2017/18.

Properties at risk of low pressure

(number per 10,000 properties)

Performance

Actual: 48.204

Target: 1.513

Link to our customer outcomes:

KPI linked to remuneration

We have not met the target of 1.513 properties at risk of low pressure per 10,000 properties, although the frequency and number of properties experiencing low pressure reduced considerably from that seen in 2020/21. The high numbers seen in 2020/21 were predominantly the result of hot, dry weather in the summer of 2020, combined with the significant change in water consumption patterns and volumes during Covid lockdown. These factors were not prominent during summer 2021.

We have more than 1,100 telemetered pressure monitoring devices installed at critical points across our network, so have a very good understanding and record of mains pressures. The basis of the common reporting guidance for properties at risk of receiving low pressure is now more than thirty years old, and dates to when data and understanding of mains pressures was very limited. Given this, and the number of pressure monitoring points that we now have, it is unlikely we will ever be able to meet the prescribed target for this measure.

Unplanned interruptions to supply over 12 hours

(number of properties)

Performance

Actual: 477

Target: 320 or less

KPI linked to remuneration

Although a reduction on 2020/21, we did not meet our target for unplanned interruptions lasting more than 12 hours. This is a disappointing result as we have been working hard to focus our resources to a 'water always on' mindset.

The work that we have undertaken in respect to supply interruptions has borne considerable improvements in the industry common metric of average minutes per connected property; however, the number of individual properties impacted for over 12 hours is still above committed performance. Some 421 of 477 properties were the result of a single major burst incident with no other option for maintaining the mains water supply to those customers. The remaining 56 properties were the result of one-off property events such as a defective meter or a boundary stopcock being left turned off.

Focus for the coming year remains on improving response times, increasing local resources and alternative methods of maintaining the water supply to customers' properties.

Key

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

Performance key

Increased

Decreased

Performance met

Performance not met

Financial

Gearing

(ratio of net debt to RCV, %)

Performance

Actual: 73.0

Internal threshold: 80.0

Our gearing at 31 March 2022 continued its downward trend, being 3.0% lower than at 31 March 2021, and within our internal threshold of 80.0% allowing sufficient headroom within our gearing covenants. Our net debt increased by £88.8m primarily due to accretion on our index-linked bonds, but this was more than offset by the increase in RCV of £175.2m due to our ongoing capital investment and inflationary increases.

Cash flow

(Net cash flow before tax and financing)

Performance

Actual: -£16.1m outflow

Target: -£22m outflow

KPI linked to remuneration

Our net cash outflow of £16.1m (prior to a £12.1m adjustment to reflect additional revenue to be returned to customers in future years) was £31.2m lower than the prior year (2021: £15.1m inflow) primarily due to £31.3m increased net spend on assets, in line with our AMP7 investment commitments. Operating cash flows were broadly in line year on year, with increased operating profits being offset by a reduction in working capital in 2021/22.

Sustainability Governance

We have dedicated resources with responsibility for Environmental Social Governance (ESG) topics across the business. Our regulation and strategy directorate with corporate affairs function includes a team responsible for community focus areas, community engagement and corporate social responsibility activities. We have a dedicated safety and health team, and quality team. Our quality manager also sits within this team and leads work on our management systems. We hold international (ISO) certification for our business management system covering quality management (ISO 9001), environmental management (ISO 14001) and health and safety management (ISO 45001). To ensure compliance with governance policies, we regularly launch e-learning packages requiring mandatory completion, including the Bribery Act 2010, EU Competition Law, Code of Conduct, GDPR, Understanding Expenses, or Biosecurity awareness, for our operational colleagues.

Our approach

We are providing services that are both essential and environmentally sensitive. We recognise that valuing environmental and social impacts is challenging and are looking at the consistency of reporting for the long term.

We are a public interest entity and must ensure that the environment and social service we provide is balanced with that of our shareholders and the wider financial markets. We need to think hard about interdependencies and to work collaboratively – and urgently – to understand those and address them, not only within our water sector but across other sectors too. There will also be an impact on our supply chains and upstream infrastructure. This requires a different approach and ways of working. None of us can address these challenges in isolation; we are all dependent on each other. We are committed to bringing our communities, businesses, government, regulators and customers along with us on this journey to work collaboratively and meet these challenges together.

Our aspiration is to be the stewards of the local environment and 'leave the environment in a sustainable and measurably improved state'.

We do it through:

- Sustainability reductions and our commitment to ending unsustainable abstraction in the region where we operate.
- Investing in nature-based solutions such as river restoration to improve habitats, contribute to natural flood risk management and improve resilience to climate change effects such as droughts.
- Biodiversity projects to maintain and enhance biodiversity on our land, protect species and habitats and prevent the spread of Invasive Non-Native Species (INNS) and partnering with environmental charities and experts to help deliver the work on the ground, such as HMWT (read more on page 72).
- Reducing demand for water (per capita consumption) and promoting responsible consumption.
- Leakage reduction.
- Supporting customers in vulnerable circumstances and helping with affordability investing in inclusive services.
- Developing our people to ensure continuity of our operations and multi-generational knowledge sharing.
- Addressing climate change risks and ensuring business resilience.
- Innovating and exploring different approaches such as water neutral buildings.
- Partnership delivery and collaboration with public bodies and charities.
- Investing in the health and wellbeing of our people.

> "Through reducing demand and leakage, moving water more efficiently through our network and bringing online new sources of water – we can leave more water in our environment and improve resilience to the effects of climate change."

Steve Plumb
Director of Asset Strategy and Capital Delivery

Our alignment to the UNSDGs

The United Nations SDGs (UNSDGs) 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, innovation and responsible consumption. However, there are nine UNSDGs we believe our contribution towards is particularly aligned and influence our thinking.

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

5 GENDER EQUALITY

Our alignment: 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. Our gender pay report is published on our website: affinitywater.co.uk/responsibility

6 CLEAN WATER AND SANITATION

Our alignment: Supplying quality water, working alongside sewerage companies regarding sanitation

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

8 DECENT WORK AND ECONOMIC GROWTH

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

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

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

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

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

10 REDUCED INEQUALITIES

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

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

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Our alignment: Securing the long-term provision of sustainable water for all

Our Water Resources Management Plan identifies, over a 60-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/water-resources-plan

13 CLIMATE ACTION

Our alignment: Supplying quality water for all and protecting the environment

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

14 LIFE BELOW WATER

Our alignment: 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 in order to leave more water in the environment to ensure we can meet future demand.

15 LIFE ON LAND

Our alignment: Increasing biodiversity and sustaining the environment

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

Sustainability
Our environment

We understand that our work has a potentially significant impact on the environment, and we are continually working to improve the sustainability of our operations.

We've completed a number of assessments, and have developed programmes to monitor, maintain and enhance our local environment.

We're currently working to deliver 91 measures under our AMP7 Water Industry National Environment Programme (WINEP). These include:

- Investigations into the impact of our abstractions on the environment
- Investigations into the sources and pathways of diffuse pollution that impacts raw material quality
- Catchment schemes (like cover crops) that reduce soil and nutrient losses to groundwater and rivers
- River restoration and habitat enhancement works
- A programme of abstraction reductions

Other programmes include landholdings management, corporate social responsibility schemes, net zero action plans and educational programmes.

We also undertake a range of basic activities to strengthen environmental compliance and promote best practice, which includes the maintenance of a company environmental handbook, as well as monthly environmental communications and company environmental awareness events.

Below is a summary of specific measures that Affinity Water has completed or undertaken in the financial year 2021/22.

Strategic Environmental Assessment

The Strategic Environmental Assessment (SEA) is a systemic assessment tool to support and inform decision-making. It's intended to provide a high level of protection for the environment, contribute to the integration of environmental considerations into plans, and ultimately promote sustainable development. Regulations require an SEA to be undertaken for specific plans and programmes that are likely to have significant effects on the environment.

The most recent assessment was completed in February 2019. This was done as part of Affinity Water's planning process – the Water Resources Management Plan (WRMP) – that intends to manage the balance between water supply and demand for a minimum period of 25 years. We're currently updating this assessment as part of our broader Water Resources Management Plan (WRMP), in collaboration with Water Resources South East (WRSE). We're planning to submit a draft WRMP to DEFRA in October 2022. A new SEA will be included as a statutory component of this plan.

Environmental Enhancement Programme & River Restoration

Our supply area includes around 10% of England's chalk streams, which are recognised as rare ecological habitats. As part of our 'business as usual' activity, our substantial Environmental Enhancement Programme delivers projects in our supply area to protect and enhance the environment.

We've been working to improve the chalk streams in our area for over 20 years. Since 2015, we've carried out restorations for over 120km of chalk streams. The programme continues to provide supporting flows from our boreholes to help river flows, and also works with farmers and other catchment stakeholders to improve land use and water quality. It focuses on river restoration, abstraction reduction, biodiversity work and catchment management projects to improve the health of the chalk stream ecosystem.

During AMP7, we will aim to enhance 13 rivers including the Upper Lea, River Beane and River Gade. By 2025, Affinity Water aims to have completed over 30 river restoration projects. Successfully delivering this programme will make sure we can meet our requirements as set out by the Environment Agency in the Water Industry National Environment Programme (WINEP).

In 2021/22, we completed our longest section of river restoration works along the River Beane. You can read more about this on page 21.

Abstraction reduction

We're committed to finding ways to reduce abstraction in line with the Water Framework Directive (WFD). This will allow us to contribute towards meeting 'Good' ecological status for chalk streams in our supply area.

Our 2020-25 Business Plan committed to reducing abstractions by 27.3 million litres a day (Ml/d). This followed the successful abstraction reductions of 42Ml/d during our 2015–20 asset management period in six catchments.

This means that we will have reduced abstraction in our central region by almost 100Ml/d by 2025 since the 1990s – more than halving our groundwater abstraction from the Chilterns.

Read more about how we will achieve this on pages 39 and 61.

Have improved over

120KM

of chalk streams since 2015 through abstraction reductions and river restorations

Task Force for Nature-related Financial Disclosures (TNFD)

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

As part of this, we want to improve our understanding of the true value of nature in our supply area through alignment with the Task Force for Nature-related Financial Disclosures (TNFD) to understand and quantify nature-related risks and opportunities in a transparent and consistent way.

Our first endeavour is to adopt the LEAP methodology to:

- Locate – identify Affinity Water's interface with nature
- Evaluate – consider nature dependencies and impacts
- Assess – material risks and opportunities
- Prepare – take steps towards responding and reporting

Through aligning with TNFD, we may be able to measure our progress towards our environmental ambition as detailed in our Strategic Direction Statement to 'leave the environment in a measurably improved state'.

> "We want to thank Affinity Water for working with us again for another year and being the Headline Sponsor of Groundswell. We are looking forward to hosting over 5,000 people this year, all of whom share a passion for regenerative agriculture"
>
> **John Cherry**
> host farmer of the annual Groundswell regenerative farming event

Catchment management

Our catchment management programme has been created to improve soil and water quality, capture carbon and manage flood risks. It also allows us to work collaboratively with farmers to reduce pesticide losses to water, and to increase the biodiversity of the lands that we manage.

Since May 2019, we've been expanding an innovative cover crop programme in the Upper Lee catchment area. We've also been exploring the concept of reverse auctions to incentivise farmers to grow cover crops over winter, reducing the amount of bare soil during the winter months.

This can have a range of benefits including:

- Nitrate capture
- Improved flood risk management
- Soil health
- Carbon capture
- Reduced wind erosion
- Reduced sediment loss
- Biodiversity
- Integrated pest management
- Farm productivity

You can read more about this on page 59.

Sustainability
Our environment continued

Biodiversity

We protect and, where appropriate, enhance priority species and habitats on our landholdings. Statutory designated sites in our supply area include parts of the Dungeness Site of Special Scientific Interest (SSSI) and Wraysbury Lakes (SSSI, RAMSAR, SAC and SPA). Our landholdings also include sites of local conservation importance like Stockers Lake and Hilfield Reservoir, which are National Nature Reserves and Local Nature Reserves .

Throughout 2020-25, our focus has been on:

- Actively managing and enhancing habitats and trees
- Actively managing invasive non-native species
- Enhancing sites with protected species and habitats present

We have also implemented a designated sites programme to make sure that important sites are under management. To achieve this, we work with Herts and Middlesex Wildlife Trust, White Cliffs Countryside Partnership, and Essex Wildlife Trust and make use of their land expertise to better manage our land.

Abstraction incentive mechanism (AIM)

We are continuing to adhere to our performance commitment for 2020-25 to reduce abstraction from certain environmentally sensitive sources during low-flow periods (i.e. droughts).

Affinity Water currently has 10 sources in AIM, which is higher than any other company in the industry.

This means we pump raw water from boreholes and wells into adjacent water courses, with the aim of mitigating impacts from abstraction and droughts. This leads to more water in rivers under low-flow conditions than would ordinarily be the case, helping to support ecology and WFD objectives.

Environmental monitoring

We have an extensive environmental monitoring network to help us protect our sources, understand the impact of our operations on our catchments, and ultimately improve future decision-making.

This monitoring includes:

- River flows, groundwater, river and lake levels
- Macroinvertebrates and macrophytes surveys

We use this information to take a holistic approach to managing our catchments by:

- Assessing the response to abstraction reductions and the benefits of our river restorations works
- Informing future decision-making, helping to target abstraction reductions to where they will have the greatest benefits, and contribute towards meeting 'Good' ecological states as per the Water Framework Directive

Environmental handbook

In August 2020, we published our internal digital environmental handbook, which provides an easy-to-use reference guide to help us check and understand the environmental requirements within our daily operations. This makes sure we carry out every job with the environment in mind.

The handbook sets out the following requirements for compliance:

- Environmental management systems
- Environmental permits
- Site management and stewardship
- Noise, nuisance and emissions to air
- Discharges
- Species and habitat management
- Sustainability
- Waste
- Hazardous substances
- Incidents
- Capital delivery projects including Environmental Impact Assessments

Draft Drought Management Plan

Our draft Drought Management Plan was published for public consultation between 4 June and 30 July 2021. We have updated the draft plan to address representations received in the public consultation. Following DEFRA approval, we are planning to publish the final version in autumn 2022.

This plan includes a new phase of action (known as a drought trigger) to ensure we identify environmental stress in the early stages of a drought. This new trigger will help us proactively communicate the environmental risks of droughts to stakeholders, update them about the action we're taking, and tell them what they can do to help.

Some of our drought actions have the potential to impact the environment. It's possible that, in a severe drought, the Environment Agency and the Secretary of State will grant permits allowing us to take more water from underground aquifers so we can maintain supply to our customers. To prepare for this scenario, we carry out environmental assessments on these water sources and their catchments, allowing us to see what potential impact our actions may have on the environment, and how we can mitigate those effects.

Our commitment to public value

We believe it's important to work with our communities and collaborate on areas where there's a shared desire to enhance regional environmental and societal health.

For example, we currently work with farmers using online trading platforms to collaborate on improving water quality in the environment.

We are also working with a CaBa (Catchment Based Approach), and piloting new chalk stream restoration projects in two of our catchments along the River Beans and River Chess.

As an additional example, we are currently working with the government and our economic regulator (Ofwat) to look at ways to develop markets for developer services, and help meet the growing need for eco-friendly houses. Read more about this on page 38.

Our aspiration is that, over a generation, we can create over £1 billion in value for our communities through cocreation, with this value shared between participants.

Sustainability
Our environment continued

As the UK's largest water-only supply company we recognise the important role we play, not only in providing an essential service but, also as stewards of the environment

Climate change adaptation

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

The impact of these commitments is outlined in our Environment Policy. We also updated our climate change risk assessment last year, which was published in our Climate Change Adaptation Report 2021. This risk assessment identified six headline risks posed by climate change (see over).

This report also 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, and a more extreme scenario where the world warms by 4°C.

Finally, it details where we want Affinity Water to be in 2025, and highlights the planned interventions during AMP7 that will help us get there (as well as detailing the impacts these interventions have on our risk position).

We've now almost finished the second phase of our current package of adaptation reporting, which will result in an updated submission to DEFRA, as well as additional publications that focus on our position on 'non-headline risks'. These will focus on areas where we are impacted by our interdependencies with other infrastructure organisations/networks.

We will continue to monitor our exposure to risks from climate change, and will incorporate the latest climate change scenarios into our price review submission for 2025-30.

The six headline risks identified were:

1 Increase in demand due to higher temperatures throughout the year, exacerbated during summer peak demand periods

Related National CCRA risk(s)
In9

2 Equipment and asset failure due to extreme weather events

Related National CCRA risk(s)
In1; In2; In5; In8

3 Increase in competition for, and price of, raw water imports

Related National CCRA risk(s)
In1

4 Reduced availability of ground and surface water due to drought

Related National CCRA risk(s)
In9

5 Outage due to flooding of sites

Related National CCRA risk(s)
In2; In3; In4

6 Deterioration in raw water quality due to changes in rainfall and temperature, leading to loss of sources.

Related National CCRA risk(s)
In2; In3

These have then been cross-referenced back to the National CCRA risks and the coverage documented. The relationship of these risks to the national CCRA risks is as follows:

- **In1:** Risks of cascading failures from interdependent infrastructure networks
- **In2:** Risks to infrastructure services from river, surface water and groundwater flooding
- **In3:** Risks to infrastructure services from coastal flooding and erosion
- **In4:** Risks of sewer and surface water flooding due to heavy rainfall
- **In5:** Risks to bridges and pipelines from high river flows and bank erosion
- **In8:** Risks to subterranean and surface infrastructure from subsidence
- **In9:** Risks to public water supplies from drought and low river flows

1990 | 2000 | 2010 | 2020 | 2030 | 2040 | 2050

1990-date
Ambitious abstraction reductions in Chalk stream catchments of almost 100Ml/d

Winter 2013/14
Floods

2015
Programme of work to protect critical sites from risk of flooding plus climate change finished

Last climate change adaption report published

2016
Purchase demountable flood barriers.

2017-2019
Goundwater drought

October 2017
Started Keep Track of the Tap campaign to reduce water use of customers during groundwater drought.

Feb 2018
Beast from the East

June/July 2018 and April/May 2020
Hot summer/spring periods with record demand in terms of duration and magnitude

2019
#Whynotwater campaign. A campaign that went beyond our usual water efficiency messaging, with the aim of influencing and changing legislation and highlighted water as a critical element in the climate change debate.

2020-2025
Review of our company-wide Flood Risk Assessment, to account for UKCP18 scenarios and factor in all forms of flooding.

Additional investment in catchment management activities, which provide a range of climate-related benefits.

Reduce PCC by 12.5%

2020-2030
Progress in our commitment to end unsustainable abstraction with consideration to the National Water Resources framework and environmental destination strategy.

Continued development of Strategic Regional Option (SRO) schemes to provide long-term resilience to water resources

2021-2023
Development of Connect 2050 network reinforcement schemes for inclusion in PR24

2021-2025
10% of our energy base to be self-generated by solar power

2022
New Drought Management Plan to be published

March 2024
Improve our planned levels of service for drought permits from 1 in <40 years to 1 in >200-year events

2030s
Development of SROs to be available from mid-late 2030s

2040
Ambition to further reduce reliance on drought permits post 2024, aiming for resilience to 1 in >500-year return period drought events by 2040

50% leakage reduction between 2015 and 2045

2050
Ambitious energy strategy to 2050, which includes significant expansion of self-generating solar portfolio

Quick links

Read our Climate Change Adaptation Report 2021

To find out more about how we are adapting to the climate change challenge, please visit:

affinitywater.co.uk/climate-change

Sustainability
Our environment continued

Task Force on Climate-related Financial Disclosures (TCFD)

We are all facing a climate emergency and must take action to mitigate against 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 by climate change to our business, both now and in the future.

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

This table reports our understanding and our response to climate change by evaluating the risks, opportunities and our responsibilities associated with this. We will work to be fully aligned to the requirements of the TCFD by our 2022/23 reporting year.

TCFD focus area/disclosure objective	*Our compliance and progress*	*Our future plans and commitments*	*More information*
Governance Disclose the organisation's governance around 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.	Our board has effective oversight of climate-related risks and opportunities. Climate-related risks are included within our strategic risk register which is regularly reviewed by the Executive Team and annually by the Board. The strategic risk register includes details of any appropriate controls and mitigating actions. Any relevant targets related to climate change are agreed by the Board, including our target to reduce carbon emissions. 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. Our Board has a sound basis from which to consider the risks and opportunities presented by a changing climate.	To further strengthen our governance around climate-related risk and opportunities, we will establish a TCFD working group to oversee the implementation of the TCFD recommendations. This approach will ensure that key management teams throughout the business, including Asset Strategy, Risk, Finance, Treasury and Compliance, have an aligned approach in respect of climate-related matters to support delivery of our overall climate strategy.	See our governance report on **page 118** See Board and management committees on **page 132** See principal risks and uncertainties section on **page 98** See section 172(1) statement on **page 86**
Strategy 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.	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 have outlined these commitments in our Environment Policy. Our WRMP 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. We updated our climate change risk assessment in 2021, which was published in our Climate Change Adaptation Report. This risk assessment identified six headline risks posed by climate change. This report also 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, and a more extreme scenario where the world warms by 4°C, also considering the implications of more up-to-date flood risk modelling on our asset base.	We are committed to achieving our net zero emissions target on our operational greenhouse gas (GHG) emissions by 2030. However, beyond 2030, we are working to fully 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. For 2021/22, our total gross operational emissions have continued to reduce showing a just over 7% reduction compared to 2020/21. We have now been operating for a full year on a green energy (electricity) tariff with all electricity use now zero emissions. This means that our net emissions are down 66% on the previous year. Our 2021 Climate Change Adaptation Report details where we want Affinity Water to be in 2025, and highlights the planned interventions during AMP7 that will help us get there, as well as detailing the impacts these interventions have on our risk position.	See Directors' report (GHG emission reporting) on **page 191** See our business model on **page 22** See our journey to net zero on **page 80** See climate change adaptation report on **page 76**
Risk management 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.	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 2021 Climate Change Adaptation Report has identified priority risks from climate change and how these impact our functions and activities across the business. We have identified mitigations and monitoring plans to adapt to climate change impacts. We maintain a formal risk register and risk management system for the identification, evaluation and mitigation of risks. In undertaking this risk assessment, we also sought to review our mitigation options with key WRMP24 and PR24 investment needs to plan for enhanced resilience.	We have identified climate change as an underlying cause of many of our principal risks. We have also documented in our risk registers, where appropriate, controls in place to mitigate as far as possible the potential 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. We will continue to monitor our exposure to risks from climate change, and will incorporate the latest climate change scenarios into our price review submission for 2025-30.	See principal risks and uncertainties section, including our approach to risk, on **page 98** See climate change adaptation report on **page 76**
Metrics and targets 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.	We use the UKWIR Carbon Accounting Workbook (CAW) provided for all UK water companies to give a consistent and transparent approach for accounting greenhouse gas (GHG) emissions from annual operational activities. The tool is used by UK water companies to report progress internally and prepare information for reporting performance to regulatory bodies, voluntary reporting schemes and customers. The tool is updated annually as required in line with UK publication of conversion factors used for estimating GHG emissions. The report is therefore a suitable tool to report SECR requirements. The data is compiled from various sources across the business and placed into a carbon accounting information pack before being transcribed into the appropriate areas of the CAW. This allows the CO2e figures for the company to be compiled which are then externally audited. This data is then used to calculate the total associated kWh for purchased energy and transport using recent year emission factors.	The data provided within our Climate Change Adaptation Report has been audited by both internal and external assessors to ensure accuracy. We look forward to working with customers and regulators through the PR24 process to generate performance metrics that fully recognise the risks posed by climate change and how we need to continue adapting.	See Directors' report (GHG emission reporting) on **page 191** See sustainability at a glance on **page 30** See climate change adaptation report on **page 76**

Sustainability
Our environment continued

Journey to net zero

Affinity Water is committed to achieving its net zero emissions target on operational greenhouse gas (GHG) emissions by 2030.

In the longer term, we are working to fully understand all GHG emissions that we're responsible for across scope 1, 2 and 3*, and reduce our overall contribution to global warming and emissions. This will be done in line with the UK targets to achieve net zero across all emissions by 2050.

In 2021/22, we've continued to reduce our total gross operational emissions. This has led to a 7% reduction compared to 2020/21. We have now been operating on a green energy (electricity) tariff for a full year, and all electricity use is now zero emission. This means that our net emissions are down 66% on the previous year.

We've also begun our renewable energy programme. This meant installing 500 kWp of solar generation on two of our operational sites. As these installations were only finalised in March 2022, their contribution to our energy consumption in 2021/22 was marginal. The solar generation programme is intended to cover 28 of our operational sites by 2024, and once complete will generate around 10% of our electricity requirements.

We are also continuing work on our fleet transition, and are looking at switching to electric vehicles (EVs) from 2023. However, the exact timescale for this transition is still uncertain, as we plan to switch to EVs when individual vehicles come up for renewal.

7%

reduction in operational emissions in 2021/22

1,500

kWp generated from solar energy at two operational sites

We're also considering energy efficiency as part of our pump replacement programme, and are looking at how we can increase the efficiency of our pump operations.

For 2021/22, we are shadow reporting on embedded emissions associated with our use of outsourced services and capital asset projects. This will be in addition to our existing scope 3 emissions reporting, which covers business travel, outsourced IT services, electricity transmission and distribution losses.

The shadow reporting for this year is important preparation for mandatory reporting, which is required from 2022/23. To support this requirement, we're building our capability to report on embedded emissions, and are working to integrate carbon estimating and reporting into our project development process. This will make sure that we're able to implement low carbon solutions for our asset improvement and maintenance activities (where appropriate).

We'll be reviewing our current net zero plan in 2022/23 to make sure that we're able to both meet our desired trajectory, and fully understand the options that are available to us as we look to achieve our position on operational emissions by 2030.

We're also improving our understanding of embedded and scope 3 emissions, which will allow our 2030 ambition to be included in a longer framework that will achieve total net zero by 2050. To achieve this, we're currently developing our supply chain to reduce emissions across our business.

We've previously stated that we'd consider meeting the Carbon Disclosure Project (CDP) standards for carbon management and reporting by 2025. To speed up progress in carbon management, we will advance that date and undertake shadow reporting against CDP standards in 2022/23, with full reporting (with verification) by 2023/24.

* Learn more about scope 1, 2, and 3 emissions on the Carbon Trust website here

Sustainability
Social

Our people play a critical role

Attracting, developing and retaining highly motivated people who are proud to work for us is central to our ability to deliver an outstanding service to our customers.

Learning and development

Covid-19 continued its impact through 2021/22 in the way we live, work and learn, with our teams offering exceptional service throughout to ensure our customers received the high-quality drinking water they rely on. With our continued focus on ensuring all our teams receive the training they need to be safe and effective in their roles, we have moved the training to online, where appropriate, along with reduced classroom sizes to ensure our colleagues receive the skills to perform their roles, while being conducted in line with government guidance of a Covid-secure environment.

Our strong culture of learning and development has continued to grow. During 2021/22, we continued our investment in programmes that support our wellbeing focus with an increase to 31 trained mental health first aiders, in addition to all newly appointed line managers receiving mental health awareness training, building on all the managers who received training in the prior year.

During this year, we have also continued our focus on apprenticeship programmes with our production teams, joining the leakage and customer service apprentices to do the Level 3 water process technician programme, bringing the number to 45 employees who will be doing their CABWI end assessments to gain their qualifications during 2022.

In support of our investment in internal progression and leadership development, all of which support our customer satisfaction, we have also established leadership apprenticeship programmes at both Level 3 and Level 5 to support our ongoing investment for internal progression, with both programmes commencing towards the end of 2021/22 with 28 internal managers.

Our internal career progression focus has also been supported by our careers weeks in November 2021, with 48 workshops being offered on a variety of subjects ranging from career stories to designing your career path and personal development planning, with 142 employees attending workshops.

Our focus on health and safety, and workplace competence has continued with investment in a new competency management system during 2021/22 with the new SkillStation platform launching in April 2022, streamlining training and skills, and giving greater visibility and assurance in the allocation of workplace activities, ensuring the safety, health and wellbeing of our people. This platform brings a range of functionality to be built on further through competency frameworks over the coming year.

Safety training in lone working was reviewed in 2021, working alongside the procurement and Safety Health Environment and Quality teams with new lone working devices issued. Both managers and colleagues received training on safe working practices and the new devices, to ensure their safety and wellbeing is given the highest priority.

The preparation for our 2025-30 business plan has also been supported in 2021 and beyond, through the investment in a development programme for the business planning programme board, with coaching and development support with a wellbeing focus as the group work towards the next submission.

Affinity Water also signed up to the Kickstarter scheme in 2021, with four employees joining us in developer services, scientific, water quality and customer operations teams, and two employees being offered permanent roles.

Delivering our commitments is underpinned by our Business Excellence programme. We have trained a further 58 yellow belts, 37 green belts and 3 black belts in Lean Six Sigma, a method relying on team collaboration to improve performance through identifying how they can bring about workplace improvements for our customers and stakeholders by streamlining processes and increasing efficiencies across the business.

Safety, health and wellbeing

The safety, health and wellbeing of our people and suppliers remains one of our top priorities, and we are committed to operating our business without harm. Our 2021/22 SHE Business Plan was developed to drive continuous improvement in these areas, and included activities focused on building on our leadership, behaviours and wellbeing.

We are continuing with this work, and part of this is to evolve our support structure by bringing in further resources. These resources will be embedded within our operational teams, to support and coach them, and to ensure we are doing the right things every time.

Our people are encouraged to discuss safety at every opportunity, spot unsafe behaviour and take ownership to stop it, and to report and resolve unsafe conditions, and we plan to renew our focus on this in the year ahead. Our lost time injury frequency rate showed a slight deterioration to 0.23 lost time injuries per 100,000 hours worked for the year ended 31 March 2022 (31 March 2021: 0.12). This gives us extra incentive to ensure we are delivering on our plans so that the intended outcomes can be realised.

Our suppliers

Our suppliers and contractors provide us with essential services that we rely on to deliver our short and long-term plans. Our average time to pay invoices over 2021/22 was 45 days; down from 46 the previous year. The number of invoices paid late also reduced from 44% (2020/21) to 29% over the last financial year. While it is encouraging to see reductions in these figures, we recognise that there is much room for improvement and will continue to monitor our performance and maintain ongoing communication with all stakeholders to facilitate more efficient invoice processing and payments.

Sustainability
Social continued

Equality, diversity and inclusion

We have made great progress on the EDI front, but we still have a long way to go. Shown below are the key actions we took in 2021/22, as well as our plans for the coming months.

Launching more networks

We want all employees to feel valued, supported and respected at work. To help us achieve this, in 2021 we launched the Women's Network, the Men's Network and the ONE Network (for Black, Asian and minority ethnic employees).

All networks are open to colleagues who identify with a particular network, as well as colleagues who want to help the group achieve its goals.

Every network is sponsored by an Executive Management Team member. This year, we'll be launching two more networks: Pride and Neurodiversity.

Reviewing our policies

We want all our policies to be the best in industry. Our policy team has embarked on a comprehensive review of company policies from an EDI perspective, supported by an EDI Committee member. The team's first output is a new improved Menopause Policy. We'll be launching it in June, along with an informative campaign.

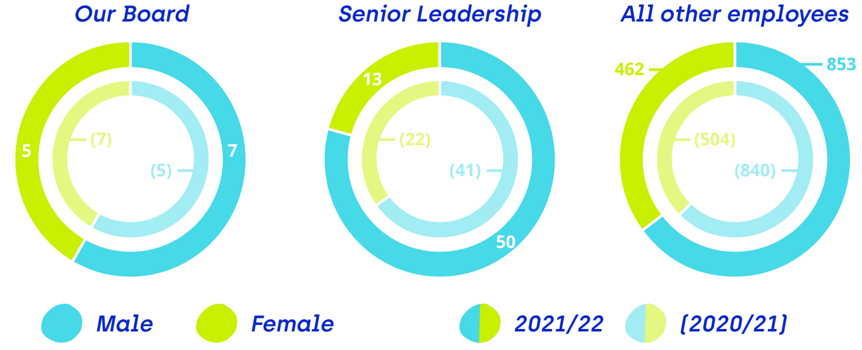
We're reviewing our family-friendly policies, including neonatal leave and infertility. We'll be removing the need to be employed for 26 weeks to request flexible working. And we'll be improving our support for members of the reserve forces: colleagues will receive up two weeks' pay during training and full pay if mobilised.

Gender pay gap

Since we published our first Gender Pay Gap report in 2017, we have seen a reduction in the mean pay gap. This is a testament to the work we have carried out that makes Affinity Water a great place to work for everyone.

We realise there is much more we need to do in this space and adjusting our gender balance will take time.

The gender breakdown of our directors and employees as at 31 March is shown below:



Senior Leaderships include the Executive Management Team and their direct reports

We are committed to driving the gap down further and will look at ways to increase the recruitment and progression of women to more senior levels and attract more women into operational, leadership and STEM based roles.

For more information on our Gender Pay Gap, see page 183 or read the full report at affinitywater.co.uk/docs/Gender-Pay-Gap-report-2021.pdf.

Conducting a root cause analysis

We wanted to understand more about our EDI performance and how to improve it. We also wanted to gain insights about how other organisations approach EDI, what their challenges are and how they are responding. To achieve this, we partnered with Inclusive Employers, an inclusion and diversity specialist with expertise in root cause analysis. Their specialists engaged with more than 10% of the business, using round tables and interviews to gather and quantify feedback. They also looked at existing data and insights, and did a lot of benchmarking. We're using the findings from their analysis to build our EDI strategy for 2022.

Sharing best practice

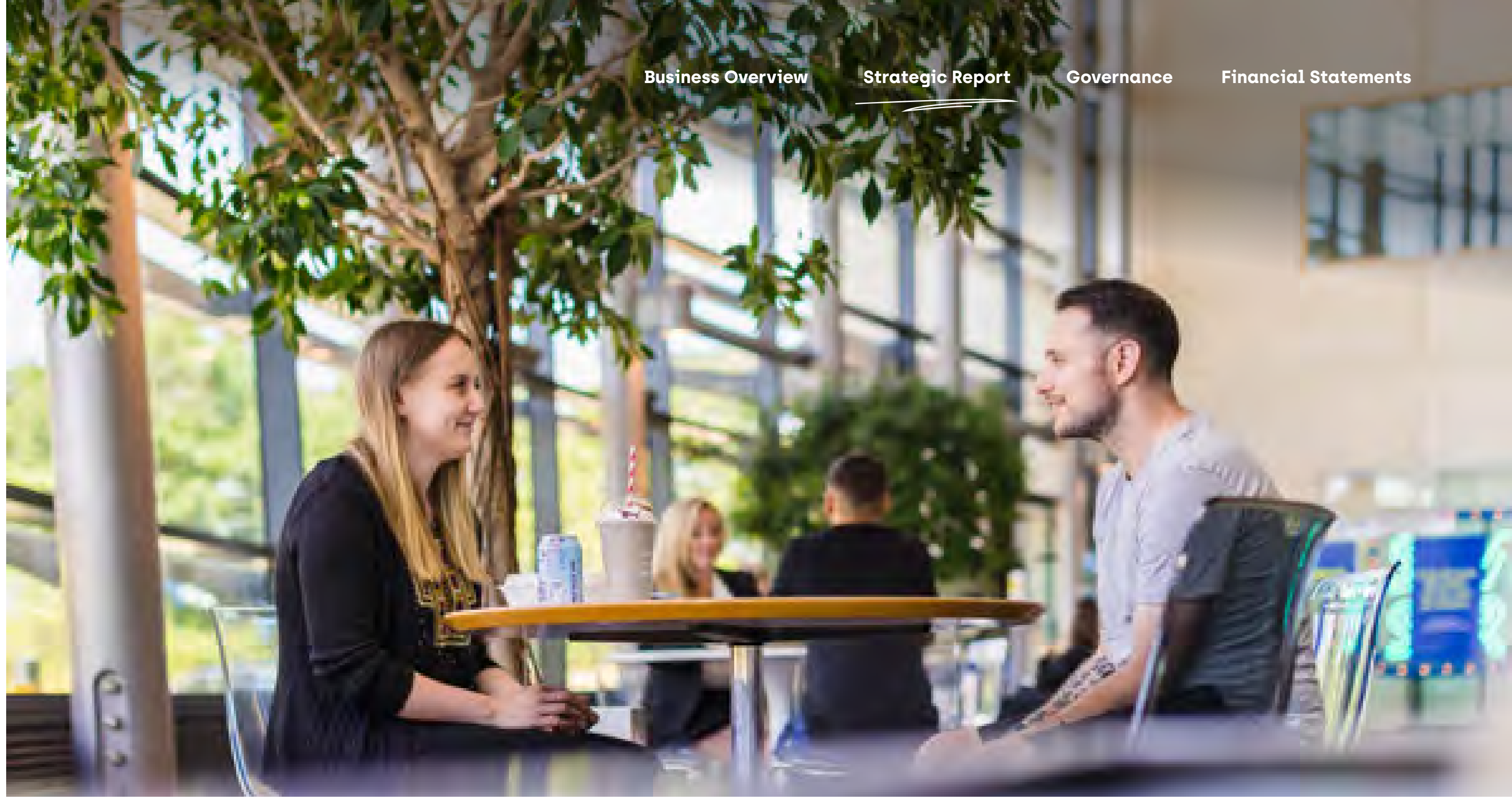
We have joined the Inclusive Employers organisation. They will use their understanding of the unique inclusion and diversity challenges our organisation faces to deliver tailored, action-focused support on our journey to make inclusion an everyday reality.

We are also a member of the employer-led Energy and Utility Skills organisation and have attended network meetings to share EDI best practice and collaborate in addressing EDI across the sector.

We have started working on new initiatives with the Greater London Authority too.

Improving our recruitment process:

- Our new applicant-tracking system has enhanced our reporting and is helping us to identify how well we are doing in attracting a diverse range of candidates.
- Our new careers website positions us as an employer of choice, celebrating our people and EDI commitments.
- Our EDI Committee supported the talent acquisition team to develop interview training with a firm focus on EDI awareness and unconscious bias. It has been rolled out across the business.



Employee engagement

Our employees are at the heart of our business, and we are constantly looking at how we can ensure that employee engagement is central to everything we do.

Last year, we held three company conference live events, which reached 80% of the business. The feedback was exceptional and over 92% of attendees thought they were great events that brought everyone together. For the latest one in March, our directors took to the road and shared live highlights from colleagues across our sites. It was a chance for us all to reflect on the highlights of the past year and to set the scene for the year ahead as we launched our new company objectives.

> **This was an excellent conference, the best one yet, filled with enthusiasm and energy."**
>
> Feedback from anonymous survey after Spring 2022 live event.

Across the year, we also ran a series of targeted communications and engagement campaigns to directly address key issues for our frontline teams. In spring/summer 2021, we ran our 'love where you work' campaign and visited teams to talk about our CRI water quality KPI, and to communicate key water quality messages and share best practice. There was a high level of engagement and, following the sessions, we put in place clear actions to help improve our CRI score.

In March 2022, we ran our 'Take 5' campaign during one of our busiest times in our contact centres. The campaign focused on supporting, engaging and recognising our people, promoting wellbeing and delivering an exceptional experience for our customers, all while injecting some fun.

We had a great response from our frontline teams. They used whole self MOTs from the charity Mind, and accessed wellbeing support. Our senior leaders prepared and gave out over 200 thank you cards and care packages. We recognised and rewarded over 80 colleagues, with vouchers, certificates and chocolates. We listened to our teams and what they wanted at work – this included fruit crates to support healthy eating, which was the most liked part of the campaign.

> **I find these sessions really valuable, it's been great to see what others are doing to improve their working environments and, by sharing this, we can improve things across the Board."**
>
> Feedback from Production Technician during the Love Where you Work campaign

Recognising our colleagues is also central to our employee engagement and, last year, we recognised over 550 people through our peer-to-peer recognition scheme 'Principle of the month'. Each month, the winners received a surprise call from Stuart, our CEO, to thank them for their work and to give them a prize. At the end of the year, we held a final where 12 colleagues who had received over five nominations each, received a special congratulations hamper from Fortnum and Mason.

Our people are actively involved and engaged in driving our business outcomes, and we have several initiatives in place to ensure that we listen and act upon their ideas to continuously improve life at Affinity Water.

> **I just received this gift from work, what a fantastic way to be recognised. Thanks Affinity Water!"**
>
> Gaelah Diab, Customer Side Leakage Manager, December 2021

We hold regular briefing calls with all leaders across the company to relay key messages and to ensure that we clearly understand the issues are teams are facing. These have been highly effective ways to gauge sentiment, understand the issues and put in place initiatives and plans to support our teams. We have seen a real increase in engagement levels from across the business over the course of the year.

Section 172(1) statement

Our stakeholders

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

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

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

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

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

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

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

The Board's role in stakeholder engagement is to:

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

In 2020/21, the Board's Schedule of Reserved Matters and each Board Committee's terms of reference were reviewed by the Board and updated to ensure that consideration of section 172 factors and Ofwat's 2019 Board leadership, transparency and governance principles were appropriately addressed. Directors are reminded of the section 172 requirements at the start of every Board meeting and undertook a training session delivered by external advisors on their responsibilities.

The company approach to stakeholder engagement is:

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

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

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

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

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

Section 172(1) in action

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

Customers

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

Why engagement is important

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

How the company engages

- Daily contact with customers
- Customer research programme
- Public meetings
- Our website, including our specific Covid-19 page
- Media/social media
- Through our CCG

How the Board engages

Information reported to the Board:

- The Board receives monthly performance summaries of our AMP7 performance commitments including leakage, PCC, C-MeX and D-MeX and supply interruptions, and other key metrics including customer satisfaction and written complaints

Direct engagement mechanisms:

- There is a clear reporting line to the CEO and accountability for arrangements regarding handling customer complaints
- Chair of the CCG attended the Board strategy meeting
- In 2021/22 Board members met with the CCG Chair
- Quarterly meeting with the CCG to discuss key performance metrics

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 which was made more engaging and user friendly in 2020/21

Communities

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

Why engagement is important

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

How the company engages

- Stakeholder assembly
- Joint forums
- Public meetings
- Consultation meetings for price review development
- Catchment partnerships
- Water resources monthly email updates
- Volunteering days

How the Board engages

Information reported to the Board:

- The Board receives monthly updates on community projects
- The Board received updates on the proposed company rebranding, based on customer feedback received, and how this will impact customers and communities

Direct engagement mechanisms:

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

  Throughout 2021/22, we continued to build on our social purpose and defining the programme of work that will help us meet the growing expectations of our stakeholders and add value to our communities
- Board members attended key community events in 2021/22

Section 172(1) statement continued

Employees

The workforce, including both employees and the wider workforce

Why engagement is important

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

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

How the company engages

- Senior leadership forums
- Engagement surveys, including the changing working environment as a result of Covid-19
- Monthly one-to-one meetings and personal best check-ins three times a year
- Wellbeing fortnight focusing on mental health and wellbeing of employees
- Regular podcasts from the CEO
- Culture Ambassador forums to gain feedback and progress culture development initiatives
- Diversity and Inclusion Steering Group to drive a stronger agenda of inclusiveness
- Designated Director for Employee Engagement reporting issues and progress to the Board
- Internal communications and monthly team leader briefings communicated to all line managers
- Management Enhancement Programme introduced, with a Manager Corporate Induction
- Covid-19 updates and an internal Covid-19 website for employees
- Customer Hero Awards to reward behaviours that support our principles

How the Board engages

Information reported to the Board:

- Following another Culture Survey in 2021/22, we have continued to drive cultural change across the business. Culture Ambassadors represent their departments in the roll-out of cultural improvement and progress made. The Board received updates from engagement surveys conducted in the year
- Information on productivity, attrition levels, learning participation, training and development plans, wellbeing and output from exit interviews is reported monthly to the Board
- Whistleblowing incidents are reported to the Board. All incidents are taken extremely seriously and are thoroughly investigated, working with external reviewers if required

- Details on the company's return to work plans as a result of Covid-19 and the impact the pandemic had on employees

Direct engagement mechanisms:

- Trevor Didcock, Director of Employee Engagement is responsible for employee liaison in accordance with the Code. The overriding purpose of the role is to ensure that the voice of the workforce is heard and considered at Board level. A key secondary purpose is to improve the transparency of Board activities, discussion and decision-making and in so doing improve alignment between the Board and the workforce. Trevor attends the Culture Forums with Cultural Ambassadors from within the business, providing training to ambassadors, reporting and holding discussions of the corrective actions taken. Trevor is also a member of our Diversity and Inclusion Committee, established in 2019/20 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. 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.
- The CEO met employees across the business to thank them for their work during the pandemic and understand the issues on the ground and the new ways of working

Workforce policies and practices:

- Refer to the Governance Report for further detail on workforce policies and practice and workforce concerns, and details of what the Board is doing about gender equality and reducing our gender pay gap.

Shareholders

Owners of shares in the company

Why engagement is important

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

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

How the company engages

- Board meetings attended by shareholders / nominated directors
- Monthly financial and operational updates
- Regular meetings and calls
- Annual report and financial statements, which gives details of the performance, strategy, viability and company business model, approved by the Board

How the Board engages

- We explain how the Board engages with our shareholders and involves them in decision-making in our publication: 'Consulting with our shareholders', approved by the Board in June 2020 to include the Ofwat 2019 principles, available on the governance pages of our website.
- In 2021/22 the Board engaged directly with shareholders in setting and approving budgets for 2022/23
- The Board engaged with shareholders on the £4.0m equity injection into the company in March 2021, with a further £1.0m being discussed in 2021/22, including objectives from the funding and the source of the finance
- The Board conducted an effectiveness review, including responses from shareholder appointed Non-Executive directors, in the year.

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 and land disposals
- Regular meetings and calls, including meetings with key MPs in our supply area
- Discussions on our key worker status and priorities in response to Covid-19

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
- Risk assessments reviewed to ensure sites are all Covid-19 compliant, in line with Government guidance

Direct engagement mechanisms:

- Board approved updated terms of reference to include Ofwat's 2019 Board leadership, transparency and governance principles
- The Board received updates on proposals to submit to Ofwat for Innovation Competition funding
- Throughout 2021/22 the CEO had meetings with Ofwat representatives and Water UK on the impact of Covid-19 on the industry and performance commitments
- The CEO had meetings with the EA, Ofwat and the DWI on operational events and the impact on ODIs and abstraction licences
- Delivery Steering Group and monthly performance reviews to drive the achievement of performance commitments in AMP7
- Non-Executive and shareholder directors attended regular events with Ofwat, including prior to their appointment.

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

- WRMP
- Catchment management
- River restoration
- Company environmental policy to ensure we meet our purpose to provide high-quality drinking water for our customers and take care of the environment

How the Board engages

Governance arrangements:

- The Board is composed of individuals who have appropriate knowledge, skills, experience and background to take decisions informed by an awareness and understanding of environment-related threats and opportunities. Our shareholder directors are focused on environmental issues, as part of our shareholders' wider environmental, social and governance ('ESG') programmes and alignment to the UN's Sustainable Development Goals ('SDGs')
- The Safety, Health, Environment and Drinking Water Quality ('SHEDWQ') Committee reviews and monitors, on behalf of the Board, environmental matters arising from our activities and operations, including monitoring performance against targets
- Environmental considerations are embedded into our principal risks and the management of these risks, in particular the principal risk 'We may become unable to meet our obligations to provide a sufficient supply of high-quality drinking water', which are monitored by the Board. A full review of risks was undertaken in the final quarter of 2021/22
- 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

Local environment:

- The Board reviewed customer feedback when approving our company purpose and considered customers' views on the environment, and in 2020/21 the Board approved stopping extraction from boreholes at the top of the Chess Valley, highlighting the company's commitment to restoring chalk streams
- The Board undertook deep dive exercises on ODI performance plans, targets and current performance

Climate change:

The Board considers climate change in two principal ways:

1. The potential impacts of climate change are addressed through long-term planning as part of the statutory WRMP (available on our website: affinitywater.co.uk/water-resources-plan, addressed in Technical Reports 1.2 and 1.3). A Board sub-committee on the WRMP oversaw this work and was advised by external technical experts; and
2. In 2021/22, we continued to work alongside other water companies and Water UK to develop a route map to reduce carbon emissions to net zero by 2030, an industry-wide target.

Providers of finance and credit rating agencies

Why engagement is important

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

How the company engages

- Annual review meetings with credit rating agencies
- Regular meetings and calls with banks
- Financial reports
- Engaged with banking groups and credit rating agencies on the impact of Covid-19 and the issue of swaps and debt

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 covenants and gearing headroom, and financial results

Direct engagement mechanisms:

- The CFO, on behalf of the Board, and the treasurer met with lenders and credit rating agencies during the year
- The Board approved the treasury policy and strategy to enter into power hedging arrangements
- The Board approved the issuance of the company's first green bond with proceeds to be used to finance expenditure outlined in our Green Finance Framework

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

Section 172(1) statement continued

Supply chain

Why engagement is important

We rely on our supply chain for delivery of 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 work with, to partner and do business with, ensuring that we and our partners maximise the greatest mutual value and we can continue to operate in a post-Brexit working 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
- Discussions with suppliers on how we perform key essential work in response to Covid-19

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. In 2020/21 and 2021/22, the Board agreed changes to key suppliers
- 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 a monthly basis on operational ODI performance and bi-annually on payment practice information to enable it to consider our performance and how it compares to industry peers
- The SHEDWQ Committee also reviews and monitors, on behalf of the Board, safety and health matters arising from our activities and operations, including in relation to our supply chain
- The Board considers the risk of supply chain failure through its consideration of the strategic risk register

Direct engagement mechanisms:

- Executive directors attend meetings with key members of the supply chain based on a supplier strategy

Priorities for the year

Following a review of direct engagement mechanisms, the Board identified the following priorities for the year and the remainder of AMP7:

- Achieving and outperforming our financial commitments
- Meeting our health, safety, regulatory and compliance obligations
- Developing a supportive culture, which enables everyone to perform to their best
- Striving to make a positive impact on the environment in all that we do.

Section 172(1) statement continued

Key decisions made in 2021/22

We set out below key decisions made in 2020/21 and the Board's consideration of section 172 factors in making these. Refer to page 140 for further information on matters considered by the Board in 2021/22.

Approved the company's ongoing response to Covid-19

The Board received regular updates on the company's response to Covid-19, having weekly calls at the start of the pandemic to assess the implications and agree the company strategy in response to the change in working environment. The Board reviewed the emergency plan and agreed it was crucial to continue to meet the demands of the public while ensuring the utmost safety of employees. The Board considered updates from Public Health England, the NHS, World Health Organisation and the Foreign and Commonwealth Office.

The Board reviewed updates on financial implications, regulations and risk assessments and reviewed plans for a phased return to work.

The Board engaged with the following stakeholders in assessing its response to Covid-19:

Customers

- The CEO met with vulnerable customers to understand the impact of the financial hardship they are facing as a result of the Covid-19 pandemic, to allow us to provide relevant financial support

Employees

- The CEO met employees across the business to thank them for their work during the pandemic and understand the issues on the ground and the new ways of working
- The Board reviewed results from engagement surveys, completed by all employees, to understand the impact of Covid-19 on the workforce and draft 'return to work' plans

Shareholders

- The Board shared with shareholders the impact that Covid-19 has had on the company financials, and consulted with them on the best course of mitigating actions to put in place

Regulators

- The Board had discussions with regulators regarding key worker status, not using the furlough schemes, and discussed our operational priorities and the impact the pandemic has had on our ODI performance

Providers of finance

- The CFO, on behalf of the Board, engaged with banking groups and credit rating agencies on the impact of Covid-19 and the issue of new swaps to mitigate against our interest cover ratio covenant

Supply chain

- The Executive Team, on behalf of the Board, had discussions with suppliers on how we perform key essential work in response to Covid-19, to ensure we are aligned and continue to meet our customer outcomes during the pandemic

Approved the long-term Strategic Direction Statement

The Board was fully engaged with and received regular updates on the Strategic Direction Statement, which will be published on our website shortly. This sets out the company's long-term strategy and plans in place to achieve this. Our Strategic Direction Statement provides our vision for the next 25 years, the challenges that we will face and how we need to manage these to ensure that we can meet the needs of our customers today and in the future.

The Board engaged with the following stakeholders in formulating our long-term strategy:

Communities and Customers

- We led extensive feedback sessions with customers and communities to understand all viewpoints when formulating our strategy. Communities want us to collaborate and bring everyone together to address the challenges and share knowledge and resources to create a more resilient and sustainable future
- Our customers understand water is crucial and it is our responsibility to shape a more sustainable future by changing the way in which they use water and increase understanding of why this is key. One of the things they told us is that affordability continues be a key concern for our customers, especially in the wake of the pandemic and we understand we must support customers through the journey of adaptation

Regulators

- We engaged with Ofwat and the DWI when formulating our Strategy, taking on board feedback received on the direction of the wider water industry

The environment and environmental regulators

- Demand pressures and environmental protection in the South East, including the climate change emergency we are facing, formed the basis of our Strategic Direction Statement. We have considered abstraction targets, population growth, our natural geography and our asset health and consulted with the Environment Agency, Defra and other environmental agencies in formulating our Statement

Providers of finance

- It is fundamental that we continue to maintain resilience in our finances in order to continue to deliver and invest in services. We engaged with investors and other financial agencies to understand the need to balance between investing in our services, offering investors a fair return and maintaining affordable water bills

Approved the AMP7 investment plan and transformation programme

We believe our Final Determination will be challenging to deliver, but we accepted the need to improve performance for our customers and for the environment. Over the past two years, we have been determined to continue to transform our business to achieve this. The Board reviewed and approved the AMP7 transformation programme in June 2020, consisting of capital expenditure plans, delivery of operational efficiencies, delivery of enabling projects and meeting our performance commitments, all ensuring we are 'getting fit for the future'. Continued focus has been maintained throughout 2021/22 on the transformation plans embedded into the capital expenditure programme, while entering into recovery plans regarding delayed programmes caused by the Covid-19 pandemic in 2020/21.

The Board engaged with the following stakeholders in approving the plan:

Customers

- Investment plans and proposed initiatives have customers at the forefront of all decisions to deliver what matters most to them

Employees

- Delivery Steering Group set up, consisting of members of the Board, Executive Management Team and senior leaders to ensure delivery of the plan and that objectives of shareholders, regulators, customers and employees are met
- Employees can access a dedicated Business Excellence page on our internal website which includes details of the plans and transformation projects and encourages all employees to deliver more efficient outcomes

Shareholders

- Shareholders were made aware of all investment plans and proposed initiatives and consulted with when approving the final investment plan and transformation programme

Regulators

- Stretch targets set by Ofwat as part of the PR19 process and the business is working to find ways to ensure we achieve these commitments

Section 172(1) statement continued

Approved our sustainability plans to protect the chalk streams within our supply area

The Board reviewed customer feedback when approving our company purpose and considered customers' views on the environment, and in 2020/21 the Board approved stopping extraction from boreholes at the top of the Chess Valley, highlighting the company's commitment to restoring chalk streams. The company will develop a strategy in 2021/22 for achieving our pledge to end unsustainable abstraction, assess the impact and will benchmark with the local community to revise the Upper River Chess and cut groundwater abstraction in our supply region.

Across our supply area, we will be significantly reducing groundwater abstraction in the Ver, Mimram, Upper Lea and Misbourne catchments by 2024 to leave more water in the environment.

The Board engaged with the following stakeholders in approving the plans:

Customers

- Feedback from customers was obtained when approving the company purpose and environmental plans

Communities

- Discussions were had with the River Chess Association on the use of the river within our communities, especially during the recent Covid-19 pandemic. Communities are being brought together to help in the task of protecting our chalk streams

Regulators

- Investigation, trials, and collaborative efforts with local groups in the Chilterns, the Chilterns Conservation Board (CCB) and the Environment Agency were held and we will continue to work with these partners to understand the longer-term beneficial impacts

The environment

- The chalk streams that flow through the Chilterns are widely regarded as the most threatened of all chalk streams in the world and have suffered increasingly from chronic low flows and dry periods. Reducing abstraction will go a long way towards reversing the decline in flow of these streams

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

The 2022/23 annual budget and ten-year base case cash flow forecast were approved by the Board following a comprehensive review of our strategic priorities and risks to our business in light of Ofwat's Final Determination. Our budget process took both a bottom-up approach, which engaged all cost centre managers in the business, and a top-down approach, which engaged our shareholders and considered Ofwat's Final Determination in light of shareholder objectives.

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

Approved the 2022/23 workforce pay settlement

In 2021/22, 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. Employees were consulted through their trade unions of which all employees are entitled to be a member. The Board concluded that it was in the best interests of the company to support the Chief Executive Officer's decision to approve the proposed pay increase in order to increase employee engagement, retention rates and productivity, leading to increased value creation.

Approved our Green Finance Framework and issuance of our first green bond

During the year we put in place a Green Finance Framework, which aligns our strategic and sustainability priorities with our funding and financial strategy. In October 2021, we issued our first green bond with a nominal amount of £130.0m and total proceeds of £147.8m, which will be used to fund projects which are fundamental to our Sustainability Strategy and will support our environmental objectives.

The Board engaged with the following stakeholders in approving the Framework and bond issuance:

Customers

- Investment plans and proposed initiatives were shared with customers at the forefront of all decisions to deliver what matters most to them

Shareholders

- Shareholders were made aware of all investment plans and proposed initiatives and consulted with when approving the finalisation of the Green Finance Framework and bond issuance

Employees

- Our directors will lead and allocate adequate resources to protect water sources and quality of water supplied; meet environmental and other legal obligations; develop a climate adaptation plan; and promote awareness of environmental issues within the company and outside it
- Everyone who works for us will familiarise themselves with our policies and procedures; comply with our policies and procedures in their work activities; work together to achieve our objectives, targets and to prevent pollution; report and address environmental incidents, risks and hazards, and highlight good practice; and share learning to prevent similar incidents occurring in the future

The environment

- We will manage our impact on the natural environment by minimising the amount of waste generated, and not recycled, from our activities; optimising our energy use and reducing our greenhouse gas and other emissions where possible; controlling the risks and impacts of pollution; using trained and competent people; working with our supply chain to address risks and minimise environmental impacts; investigating incidents and events to learn from them; and working with our communities, regulators and government agencies to manage our impact on the environment

Providers of finance

- Affinity Water has selected a number of key focus areas for green investments which are fundamental to its Sustainability Strategy and will deliver tangible environmental and indirect positive impacts on society, in addition to contributing to the United Nations' Sustainable Development Goals (UNSDGs)
- The company said the Green Finance Framework helped it to attract investors who are supportive of these goals, and who will act as valuable partners in supporting its journey and the company's contribution to a more sustainable society
- The Framework covers a number of different initiatives including sustainable water and wastewater management; pollution prevention and control; terrestrial and aquatic biodiversity conservation; and energy efficiency

Principal risks and uncertainties

Risk management

We have an established framework for identifying, evaluating and managing our key risks. Our main aim is to foster a culture where teams throughout the business manage risks as part of their management of day-to-day operations. Our Executive Management Team (EMT) also carry out regular assessments of emerging risks, including horizon scanning and monitoring of early warning indicators.

Operational risks are reviewed and prioritised on a quarterly basis in the context of existing controls. Where risks fall outside of risk appetite, action plans are prepared to implement further mitigations and these are carefully monitored to ensure they are completed and provide the desired mitigation. The most significant risks are raised for review by the EMT and may be added to the strategic risk register, which is reviewed by the Board and the Audit, Risk and Assurance Committee. The latter reviews senior management's work on risk management and reports to the Board on the effectiveness of risk management processes.

For more information on the responsibilities of the Board and the Audit, Risk and Assurance Committee regarding risk management and internal control, refer to page 148 onwards.

Emerging risks

We have defined emerging risks as potential future events or circumstances that could significantly and negatively impact achievement of our strategic objectives, and whose likelihood and impact cannot yet be accurately determined. As part of our overall risk management 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 are increasingly likely to become real current operational risks. Where this is the case, such risks will be subject to the same rigorous process described above to evaluate and manage them.

The EMT holds regular sessions to identify and review current and emerging risks. Along with the strategic risks, these are reviewed at least quarterly by the EMT and at least biannually by the Board.

Our current emerging risks are as follows:

	Our Emerging Risks
A	Failure to respond to shifts in societal and political expectations, and perceptions and rising levels of activism.
B	Skills gaps or unavailability due to a tight labour market and increasingly nomadic workforce combined with economic uncertainty.
C	Changes to our supply chain and to the water sector arising from Brexit, ongoing conflict in Europe, changed working patterns, and economic uncertainty.
D	Changes to the power industry, including regional differences in pricing and reliability of service.

We will continue to keep these and other emerging risks under regular and close review.

Climate change

Climate change is one of the greatest challenges for the whole industry, and this challenge appears likely to increase in the future. Sustainability and resilience in the light of this challenge is important in maintaining the trust of our customers and regulators.

Climate change can have short and long-term impacts on our assets, operations and the services we provide. The most recent significant example was the extreme weather the UK experienced in March 2018. While we dealt with it effectively and efficiently, we took the opportunity to review and revise our business continuity and emergency response arrangements.

We have identified climate change as an underlying cause of many of the principal risks listed below, particularly 2, 5 and 7. We have also documented in our risk registers, where appropriate, controls in place to mitigate as far as possible the potential 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.

On a positive note, we fully embrace the part we play in combating the effects of climate change.

Principal risks and uncertainties continued

Our principal risks

The following have been identified from our risk management analysis as potentially having material adverse effects on our business, financial condition, results of operations and reputation. They are managed as described 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.

We have identified 15 principal risks to our business in three categories:

#	Rating	Operational Risks
01	● (light blue)	Some of our work activities could cause serious harm to our employees, contractors or members of the public
02	● (dark blue)	We may become unable to meet our obligations to provide a sufficient supply of high-quality drinking water
03	● (light blue)	We may fail to attract, develop and retain employees with the competencies, values and behaviours required to engage with and promote our corporate culture, and deliver our strategic ambition and business outcomes
04	● (dark blue)	Availability, confidentiality or integrity of information or data could become compromised
05	● (light blue)	We may fail to deliver our business plan, commitments and service to customers
06	● (light blue)	Our supply chain may fail to deliver the goods and services we need to operate our business
07	● (light blue)	**i)** We could cause damage to the environment during our business activities; or **ii)** climate change and other environmental factors could negatively impact our business operations
08	● (light blue)	We may fail to implement the cultural and operational transformation of our business necessary to deliver our business plan obligations
09	● (light blue)	A significant disruptive event could impact our ability to deliver normal business activities
10	● (dark blue)	The health of our assets may deteriorate such that water supply or quality is compromised
		Regulatory risks
11	● (light blue)	Skills gaps or unavailability due to an increasingly nomadic workforce, and ongoing pandemic impacts including economic uncertainty
12	● (light blue)	We may inadvertently fail to comply with laws and obligations under our instrument of appointment
13	● (light blue)	Failure to achieve a satisfactory outcome from the price review PR24
		Financial risks
14	● (light blue)	We could fail to maintain or renew appropriate financing for our business activities
15	● (light blue)	Macro-economic factors (interest rate, inflation and tax risks) could have a material adverse effect on our financial performance

Table Key

● (light blue) Risks included in the sensitivity stress testing for the viability statement (refer to page 112).The directors consider that none of these risks would – in isolation – compromise the company's financial viability during the lookout period. Instead, these risks could be considered as part of several different severe, plausible and reasonable sensitivities to the company's base case forecast.

● (dark blue) Risks included in the scenario stress testing for the viability statement (refer to page 114). The directors considered that these risks, if they were to occur, might – in isolation – threaten financial viability potentially leading to significant unforeseen additional cash requirements during the lookout period, in the event of the significant events detailed on page 114 of the viability statement.

Principal risks and uncertainties continued

Risk summary

The table below shows a summary view of our current assessments of our principal risks. We have highlighted those risks where, during the financial year, we have revised the impact and/or likelihood assessments for individual risks due to changing circumstances.

#	Operational Risks	Likelihood	Impact	Rating	Trend
01	Causing harm to employees, contractors or public	3 - Possible	4 - Major	High	Stable
02	Unable to provide sufficient high-quality drinking water	2 - Unlikely	5 - Critical	High	Stable
03	Failure to attract or retain employees	2 - Unlikely	3 - Moderate	Low	Stable
04	Availability, confidentiality or integrity of data	3 - Possible	5 - Critical	Very high	Stable
05	Failure to deliver business plan commitments	2 - Unlikely	5 - Critical	High	Stable
06	Supply chain failure	2 - Unlikely	5 - Critical	High	Increasing
07	Environmental damage / climate change	3 - Possible	4 - Major	High	Stable
08	Failure to implement cultural and operational transformation	3 - Possible	4 - Major	High	Stable
09	Significant disruptive event	1 - Remote	5 - Critical	Moderate	Decreasing
10	Asset deterioration	2 - Unlikely	5 - Critical	High	Stable
	Regulatory risks				
11	Changes to the regulatory framework, with negative impact on business plan	1 - Remote	5 - Critical	Moderate	Stable
12	Failure to comply with laws and obligations	3 - Possible	4 - Major	High	Stable
13	Failure to achieve a satisfactory outcome from PR24	2 - Unlikely	5 - Critical	High	Stable
	Financial risks				
14	Failure to maintain appropriate financing	2 - Unlikely	5 - Critical	High	Decreasing
15	Macro-economic factors (interest rates, inflation, tax)	3 - Possible	4 - Major	High	Increasing

Key

Very high High Moderate Low

Stable Increasing Decreasing

Our risk management framework defines our methodology for assessing likelihood and impact scores for our strategic and operational risks. To determine impact scores, we consider the estimated extent of various types of consequences, including health and safety, people, financial and reputational. Our likelihood scores are assessed based on estimated frequency of occurrence and probability of occurrence within a five-year period.

The following pages describe these risks in more detail, including descriptions of the main mitigating controls which we have operated throughout the financial year.

Main changes since 2020/21

This year, we have added the following risk to our report:

Failure to achieve a satisfactory outcome from the price review PR24

Planning and preparation is well underway for the next price review process, PR24. Learning from previous AMPs, we recognise that it is imperative that PR24 enables us to continue with the investment plans currently ongoing to deliver improved water quality, resilience, and environmental enhancements. Should we fail to obtain a satisfactory outcome from PR24 then our ability to meet our targets for investment may be limited, with consequent impact on customer experience.

Significant disruptive events

Now that the threat from Covid-19 appears to be receding, we have revisited the risk relating to pandemic. We have recognised that the pandemic is not the only significant macro-scale business disruption that we may face and have broadened the risk description to include war, terrorism and significant weather events. Our business continuity arrangements must remain ready to deal with any such impact to the business and must ensure we are able to respond quickly and effectively to ensure continuity of service while ensuring the health and wellbeing of our employees.

Principal risks and uncertainties continued

Operational risks

01 Some of our work activities could cause serious harm to our employees, contractors or members of the public

Risk	Mitigation
Failing to manage dangerous working practices may result in personal injury or occupational ill-health, disruption to operations, reputational damage, criminal fines, civil damages or regulatory penalties. **Link to our customer outcomes:**	We seek to operate our business using our health and safety management system, which is externally verified and certified to ISO 45001. This encompasses policies, procedures, guidance and risk assessment protocols. We provide our employees with appropriate training to enable them to take personal responsibility for their own safety, occupational health and wellbeing, and that of others. This training includes regular safety-related communications, safety briefings, toolbox talks, safety stand down days, and promoting safety leadership evaluations and safety conversations across the organisation. We have an established governance framework where health and safety-related matters and performance are tracked and monitored, spanning operational, Executive Management Team and Board levels. We have an audit and inspection regime and incident review protocols in place to ensure key learnings are captured and any necessary strengthening of controls is actioned appropriately. We also have a programme of health surveillance assessments, wellbeing initiatives and an employee assistance programme to help ensure the welfare and wellbeing of our people are effectively managed.

02 Failure to meet our obligations to provide a sufficient supply of high-quality drinking water

Risk	Mitigation
AWL has a legal requirement to maintain a continuous supply of wholesome drinking water for customers – this is critical to public health and to the overall success of our business. Failure to achieve this could result in consumers losing confidence in their drinking water, and legal and reputational risks for our business. Key causes could include: • Unplanned asset outage e.g. pumping station outage or a mains burst; • Short-term demand outstripping ability to supply e.g. peak summer events or large commercial users; • Longer-term supply and demand arising from population growth and water abstraction rules; and • Interruptions to supply (or supply restrictions) could impact on the health, safety and security of our people and communities, and on our financial position and reputation. We operate in an area of significant water stress. This, coupled with high demand (PCC) from our consumers, housing and other developments in the South East, the construction of the HS2 railway, and other potential large capital infrastructure projects, have the potential to further increase this risk. **Link to our customer outcomes:**	We manage this risk through careful supply and demand planning over the short and medium term, and have developed a long-term water resources management plan (WRMP), which identifies, over a 60-year period, how we will balance available supplies and required demand with sufficient headroom for unplanned outage. We strive to manage customer demand through education and water saving programmes, which include compulsory water metering. Central elements of day-to-day operations involve asset maintenance, investment and risk management, improving resilience through measures such as removing single points of failure and increasing connectivity of the network. In the event of an emergency, we have well-tested contingency and emergency response plans to ensure minimal disruption to our customers.

03 We may fail to attract, develop and retain employees with the competencies, values and behaviours required to deliver our strategic plans and objectives

Risk	Mitigation
Inability to attract and retain competent and high-performing individuals in the organisation at all levels and that they are motivated and engaged to deliver the business objectives. **Link to our customer outcomes:**	Our people strategy is designed to ensure that we can attract, retain, develop and motivate the people within our business to deliver our business objectives. We have a dedicated recruitment team that uses direct resourcing methods and works with recruitment suppliers to ensure good quality candidates are sourced. The use of the company's website and new careers site is crucial in providing a strong employee value proposition that will attract talent into the business. We also operate a range of apprenticeships to bring in and develop people through our business. Current projects to improve attraction and retention of staff include: • Development of a strategic workforce plan to identify the skills that will be needed by the business in the medium to long term, so that appropriate resourcing, talent pipelines and development plans can be implemented; • Projects to improve the recruitment experience, provide consistency of role definitions, create job families, career pathways and competency frameworks; • Focus on corporate culture, employee engagement, equality, diversity, inclusion and wellbeing, and leadership development; and • Revised and simplified performance management processes to help drive performance levels and achieve business objectives.

04 Availability, confidentiality or quality of information or data could become compromised

Risk	Mitigation
In an ever increasingly connected world, and as a business involved in the delivery of critical national infrastructure, we are at risk of malicious attempts to access our data, information and systems by third parties. In addition, a failure to put appropriate measures in place to protect our business and customers from physical, cyber and personal security breaches could result in unauthorised disclosure and harm to our customers, colleagues and business operations. **Link to our customer outcomes:**	We continue to strengthen our capabilities to ensure that technical and organisational controls to prevent the unauthorised disclosure, loss or improper use of data are kept under review and improved where appropriate. We have a clear cyber strategy, which is driven by the requirements of the security of networks and information systems regulations directive and funded through our AMP7 delivery programme. Underpinned by continuous improvement activity to our processes, systems and colleagues, training covered our firewalls, vulnerability management, incident management and supplier assessments. We continue to monitor and enhance our information security management system, designed to protect us against current and future threats. Privacy impact assessments are carried out for all projects. Where any opportunities are identified, we ensure appropriate action is taken. Alignment with ISO 27001, the global information security standard, demonstrates our commitment to security best practices and ensures that we meet relevant regulatory requirements. Affinity Water currently has an ISO 27001 cybersecurity rating of 3, and we aim to achieve a rating of 4 out of 5 by the end of this AMP.

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Principal risks and uncertainties continued

Operational risks

05 Failure to deliver our business plan, commitments and service to customers

Risk	Mitigation
We have made several performance commitments in our business plan, which, if not met, may result in us incurring financial penalties and suffering reputational damage in the eyes of our regulators and other stakeholders. In addition, we must implement the investment programme set out in our business plan. Failure to do so may lead to the imposition of sanctions, including financial penalties or other enforcement action. It is also crucial that we provide consistently high levels of service to all customers and that they are demonstrably satisfied that we are doing so. Failure to maintain and continually improve our levels of service in the eyes of our customers will severely impact customer satisfaction levels, volumes of complaints, and our reputation. **Link to our customer outcomes:**	We have an established asset management function with responsibility for delivering the investment programme. The Board and senior management team monitor performance and ensure that corrective action is taken when required. We continually monitor our performance on a wide range of metrics and commitments, and take prompt corrective action to address any indicators of underperformance. We continue to actively manage engagement with all our regulators and other stakeholders. We work closely with our CCG, an independent body with an independent chair, which advises, challenges and supports us in the development of our plans, to ensure that they reflect customers' priorities. We adopt a continuous improvement strategy for customer service. We have implemented a company-wide business excellence programme, utilising Lean/Six Sigma to drive a culture of continuous improvement of all business processes. We continue to invest in new technologies and ways of working, which will help standardise how we work and ensure our customers receive a seamless experience regardless of where they interact with us – either online, on the telephone, or in their home and local community. We are delighted to have launched our water community with a cross representation of all our customer segments and regions who are providing valuable insight, which is shaping our everyday decision-making while also continuing our planning for PR24. In addition, we have invested in new capabilities to allow us to measure real-time customer expectations to ensure we are able to take action, improve processes, systems or colleague training to deliver the experience and levels of service our customers expect.

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

Risk	Mitigation
We continue to face challenges regarding the supply of certain chemicals that are essential for our water treatment processes. Much of our capital delivery programme and field activity in our Central region is outsourced to third parties. Existing contractors could have limited capacity to take on additional work due to the volume of large-scale infrastructure projects in and around some of our operational areas. **Link to our customer outcomes:**	We seek to ensure that our relationship with critical suppliers is secured under long-term agreements, where appropriate. For key activities, we may retain more than one supplier to mitigate the risk of supplier failure. We also undertake significant due diligence in the selection and ongoing management of suppliers through audit, inspection and verification of performance. The approach has been tested during the recent turbulence in the wider macro-economic climate and other socio-economic upheaval. It has proved resilient with no adverse impact on company objectives. We continue to work with other companies in the industry to address the short-term and long-term challenges associated with supply of water treatment chemicals in the UK.

07 (i) We could cause damage to the environment during our business activities; or (ii) climate change and other environmental factors could negatively impact our business operations

Risk	Mitigation
There is a risk that, while operating our business, an incident occurs that inadvertently causes damage to the environment. Such an incident could cause pollution or other environmental damage, impact our EPA scores and cause financial and reputational impacts. We are exposed to the possibility of damage to our landholdings, assets and ability to supply wholesome water caused by emerging global issues such as climate change, ecosystem decline, nearby land-use change (e.g. development or agricultural practices), carbon climate and third-party pollution events. Any of these could lead to increased operational costs, damage to our reputation, prosecution, loss of customer trust and/or operational disruption. **Link to our customer outcomes:**	Our environmental ambition is to leave the environment in a sustainable and measurably improved state. We are committed to protection of the environment, prevention of pollution and compliance with environmental legislation, regulations and other requirements that are applicable to us. To deliver on our commitment, we have set ourselves a range of objectives to protect and enhance the environment, which include being certified to ISO 9001 (Quality) and ISO 14001 (Environmental) management systems and always striving for continuous improvement in our processes, systems and activities, minimising the waste we produce and the energy we consume. We work with farmers and communities to control the risk of environmental pollution from third-party activities. We have a number of other environmental control systems and processes that include landholdings management plans, catchment management programme, drinking water safety plans, our compliance risk index (CRI) programme, our carbon reduction strategy and biodiversity programme.

08 We may fail to implement the cultural and operational transformation of our business necessary to deliver our business ambitions

Risk	Mitigation
There is a risk that the changes to our organisational structure and business processes are insufficient to deliver the desired transformation necessary to deliver our business ambitions. **Link to our customer outcomes:**	We are in the midst of a cultural transformation programme to ensure, amongst other things, that we have a culture where our people are comfortable and embrace the significant changes necessary to make the required changes to deliver our Journey to 2025. We have a well-established and rigorous project methodology in place to govern how we deliver our programmes and projects. Our Investment Committee reviews all proposed projects before initiation and monitors their delivery to ensure successful outcomes. New projects are approved by reference to available finances, people and other resources as appropriate.

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Principal risks and uncertainties continued

Operational risks

09 A significant disruptive event could impact our ability to deliver normal business activities

Risk	Mitigation
Our ability to effectively and efficiently deliver the services that our customers expect could be significantly impacted by an extreme disruptive event, such as catastrophic loss of assets, extreme weather events beyond our current capacity to manage, terrorist attack or extended periods of pandemic or war. **Link to our customer outcomes:**	Affinity Water maintains an emergency response team to deal with the various issues that put the company or its customers at risk. These high-level procedures are maintained and reviewed on a regular basis. Each event, including the recent pandemic, is subject to a learning review and long-term resilience plans are updated through the outcome of these learning sessions. These improvements are proposed to the investment teams for improvement or corrective actions that add to the company resilience. Business continuity planning is based on the guidance of ISO 22301:2019 and our emergency preparedness is assessed as part of our ISO 9001:2015 certification for assurance purposes. Affinity Water maintains a 24-hour rota to ensure emergency management is available should an event occur. Affinity Water maintains a close working relationship with the relevant local resilience forums (LRFs) organised through local government authorities to meet the requirements of the Civil Contingencies Act (CCA) 2004 and Security and Emergency Measures Direction (SEMD) 2022. Affinity Water regularly engages with Water UK on risks and has representation on the National Incident Management team (NIM) for dealing with tactical responses to national or regional issues, involving DEFRA and other government departments or agencies, and on the Platinum Incident Management team (PIM) for implementing agreed industry strategies in our organisation.

10 The health of our assets may deteriorate such that water supply or quality is compromised

Risk	Mitigation
The health of our assets is critical in facilitating the ongoing supply of sufficient quantities of high-quality water to our customers and ensuring the operational resilience of the business. The health of our assets is also important in ensuring that they can be operated safely by our employees. **Link to our customer outcomes:**	The maintenance of our existing assets to maintain service to customers is funded from the base capital maintenance element of our regulatory settlement; for 2021/22 this was just over £100 million. Unlike some other areas, we have autonomy to decide how to allocate funds to best deliver our performance commitments. We use a 'risk and value' based approach to inform our decision-making, which enables us to prioritise investment to those areas that most need it. This year, we are very proud to have delivered one of the best Compliance Risk Index (CRI) scores in the industry – a testament to how we have prioritised and delivered water quality-related investments. In support of this, we are working on enhancing the accuracy and completeness of our data and the suite of asset health metrics we use to measure risk. We have recently moved our below ground (infrastructure) assets onto the same risk management process as our above ground (non-infrastructure) assets, so we now have a single view of our emerging asset risks in one place.

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Regulatory risks

11 Changes could occur in the regulatory framework, or social or political climate, which could have significant effects on our operational or financial performance

Risk	Mitigation
Changes to the regulatory framework by Ofwat or the government may have an adverse effect on our operational or financial performance. We are also exposed to risks arising from the general social and political climate, for example, debate around the merits of the current water ownership model, political pressure to restrict price increases and other issues, such as the adequacy of our WRMP and some objections to compulsory water metering. These pressures may lead to a reduction in revenue or have a reputational impact. Nationalisation has fallen down the political agenda but political risk remains high due to continued scrutiny of the industry. **Link to our customer outcomes:**	We continue to contribute fully to consultations with our regulators and seek to ensure our voice is heard on emerging changes through strong relationships with all our stakeholders. We continue to engage with our stakeholders and their representatives to understand and respond to their issues and concerns. We regularly engage with stakeholders across the political spectrum to understand and mitigate political risk.

12 We may fail to comply with laws and obligations under our instrument of appointment legal, compliance or business obligations

Risk	Mitigation
We need to ensure that our activities and outputs comply with licence conditions or statutory requirements arising from our appointment, as well as all other applicable laws and standards. Failure to do so may result in an enforcement order, a fine up to 10% of appointed turnover or termination of our appointment and special administration. **Link to our customer outcomes:**	Priority legal requirements, as set out in the Licence Conditions and Water Industry Act, are captured in a new Legal Obligations Register. This register will inform future compliance returns and will be reviewed on an annual basis with additional risks added or removed as risk and circumstances require. The new register will provide a reference point for high level compliance and will require directors to provide a statement of compliance that includes all relevant procedures and controls, or otherwise record any risk of non-compliance and provide mitigation and/or an action plan to address that potential non-compliance. All remaining legal or compliance risks will be managed through the application of regular internal reviews, standard operating procedures, training programmes and a risk reporting process where it is appropriate to do so. We continue to operate our abstraction, treatment and supply activities to environmental standard ISO 14001 and have adopted the principles of other relevant management systems and standards. Our compliance programme is designed to ensure that: • All employees are adequately educated on the legislation and regulations particularly relevant to their specific job roles; and • Appropriate assurance activities are in operation to provide positive evidence of compliance.

Principal risks and uncertainties continued

Regulatory risks

13 Failure to achieve a satisfactory outcome from the price review PR24

Risk

The price review process sets the revenue, allowed investment and required performance for the next five-year period – in this case 2025–30. The review includes all aspects of the regulated business and a failure to adequately plan and resource the process could lead to a poor outcome for Affinity Water. The impacts would include insufficient investment allowed in order to meet customer expectations, our obligations and required performance levels.

Link to our customer outcomes:

Mitigation

We have resourced our PR24 team; planning for the business plan submission in October 2023 is well under way. We are fully engaged with Ofwat through the various working groups, consultations and discussion papers that they have issued, and have plans in place to respond to the draft methodology that is due in summer 2022. We continue to focus on performance within the current period to ensure we are in the best possible position both to develop and submit our business plan, and also to transition into the next AMP in April 2025.

Financial risks

14 We could fail to maintain or renew appropriate financing for our business activities

Risk

Our business has an ongoing liquidity requirement, driven by the operational costs of the business and our substantial capital investment programme. This results in liquidity risk if we are unable to meet our cash flow requirements as and when they fall due.

We are subject to several covenants in relation to our borrowings. If a covenant is breached, this could lead to a default with any outstanding borrowings, and becoming immediately repayable. This could also impact our ability to raise funds on sufficiently favourable terms in the future.

Link to our customer outcomes:

Mitigation

We have undrawn revolving loan facilities, cash balances and standby loan facilities to meet our forecast cash flow needs. Our treasury policy requires us to maintain a minimum level of liquidity capable of covering at least 12 months of forecast cash flow requirements. Longer-term financing needs are sourced from the private and public bond markets. As at 31 March 2022, we have cash balances of £135.6 million. We have £14.2 million of debt maturing in AMP7 and a spread of maturity beyond this. Our next major refinancing exercise is scheduled for July 2026 when our £250 million fixed rate bond matures.

Our credit ratings remain investment grade, and our policy is to maintain a diverse portfolio of counterparties through which we can access liquidity at all times. This ensures we are not reliant on any single treasury counterparty.

We have a regular monitoring and certification process of the financial covenants within our Whole Business Securitisation (WBS) documentation. This covers information, financial and general covenants. Our treasury policy requires that financial covenants, which include gearing and interest cover ratios, are monitored and reported to the Board on a regular basis. We continue to maintain investment grade credit ratings with credit rating agencies.

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15 Macro-economic factors (interest rate, inflation and tax risks) could have a material adverse effect on our financial performance

Risk

Energy costs are a significant part of our cost base and are subject to market price movements. Since mid-2021, the price of energy in the spot and forward market has increased significantly, which has increased our costs.

Movements in interest rates can result in an increase in the cost of our debt both now and in the future.

Our wholesale revenues in a given financial year are explicitly linked to the CPIH published the previous November.

An inability to control our cost inflation on the same basis would lead to a reduction in the company's profitability. Our RCV is also linked to inflation and nominal returns are therefore likely to be further reduced in a low inflation environment.

We operate a pension plan providing defined benefits based on final pensionable salary. The assets and liabilities within the plan depend on several external factors outside our control, including performance of equity markets, interest rates and future inflation, which may increase the cost of our cash contributions.

Customer debt and affordability remain key areas of focus for our business. A downturn in the economy or a reduction in consumer income (real terms) may lead to an increase in unpaid water customer bills. We are not permitted to disconnect water supplies to household and certain other types of premises in the event of non-payment, resulting in loss of revenue and increased cost of collection.

Link to our customer outcomes:

Mitigation

Energy price fluctuations are mitigated in two ways: firstly, by implementing efficiency programmes to reduce the amount of energy we use. Secondly, by developing self-generating assets (solar) to reduce our reliance on grid imported energy. We have already energised our first solar arrays and aim to produce c.10% of our annual energy requirement from solar by 2025.

We purchase energy in the forward market to achieve cost certainty and reduce the likelihood of needing to purchase during highly volatile periods. 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 on a regular basis to the Board.

Inflation risk in our costs is managed through undertaking a robust and challenging budgeting process to ensure costs are clearly understood and subsequently controlled during the financial year.

We also use inflation-linked debt to ensure a proportion of our interest costs are linked to inflation and, therefore, offsets an element of the reduction in revenue and RCV that results from lower inflation. We now have inflation-linked swaps with a notional value of £250 million (CPI) and £210 million (RPI). The proportion of debt linked to inflation is now 80.8% (2021: 80.8%).

The defined benefit pension plan has been closed to new members since September 2004, and the assets of the plan are held separately from those of the company. The plan is in surplus on an accounting basis (refer to notes 10 and A5 to the financial statements) and the latest actuarial valuation of the defined benefit section of the Affinity Water Pension Plan (AWPP) as at 31 December 2020, determined by an independent qualified actuary, concluded that the pension plan was 96% funded on a self-sufficiency basis. To eliminate the funding shortfall identified, as well as funding the future cost of benefits being accrued within the plan, the company agreed to pay contributions of £1,250,000 prior to 31 July 2021, £1,600,000 prior to 31 December 2021, and £1,600,000 per annum commencing from 1 January 2022. This was formalised in a new schedule of contributions effective from July 2021. 90% of the interest rate and inflation risk associated with the plan's liabilities are hedged by the plan's assets through liability and cash flow driven investment.

We have processes and teams dedicated to the efficient collection of customer debt, and outsource to a number of debt collection agencies when the recovery of debt has been unsuccessful. For those customers who struggle to pay their bill, we have payment arrangements that are as flexible as possible, and we encourage customers who find themselves in difficulty to contact us as early as possible. We also have a social tariff (LIFT) to help support customers who are least able to pay their bills.

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.

The directors also assessed the company's long-term prospects in the context of our WRMP, which sets out our plan to secure the long-term provision of resilient and sustainable water supplies for customers from 2020 to 2080. Our plan was approved by the Secretary of State in March 2020. 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 assessed the company's financial viability over a shorter ten-year period to 31 March 2032 (the 'lookout period'). The forecasts used in the assessment of financial viability, therefore, project beyond the current price control period taking into account both our AMP7 Final Determination and our WRMP. 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.

The directors also reviewed the principal risks and uncertainties facing the company set out in the previous section, and determined that it was reasonable to expect that none of the individual principal risks identified on page 100 with the icon , if these were to occur, would in isolation compromise the company's financial viability during the lookout period. Instead, these risks could be considered as part of a number of different severe sensitivities to the company's base case forecast.

Stress-testing was performed on a Board-approved base case cash flow forecast (the 'base case cash flow forecast') reflecting a capital structure consistent with the de-gearing scenario agreed with the company's shareholders detailed in our AMP7 Business Plan with projected gearing reducing to 74.5% by the end of AMP7, projected revenues for the period to 31 March 2025 as allowed by Ofwat's final determination of price controls and taking into account revenue adjustments in light of Covid-19 and anticipated expenditure for AMP7, and an extrapolation of the AMP7 Final Determination for AMP8. AMP8 expenditure also includes anticipated expenditure to further develop strategic regional water resource solutions, as detailed in our WRMP. The base case has taken into consideration the impact of Covid-19, supply chain cost pressures and the energy price crisis on the company, and reprofiled capital expenditure from projects delayed during the first year of AMP7 into later years of AMP7. The base case has also taken into consideration our forecast gearing against notional gearing, using a gearing sharing mechanism consistent with methodology prescribed by Ofwat in our final determination with a one AMP delay.

The base case forecast includes capital expenditure over AMP7 on a net basis, offsetting capital spend on HS2 projects with contributions received. Gross capital expenditure in the year ended 31 March 2022, including HS2 spend, was £139.9m (2021: £139.4m). HS2 contributions of £18.6m (2021: £52.4m) were received against this spend.

The projections for the ten-year lookout period apply the AMP7 mechanism for sharing financial outperformance with customers. They also include the impact of the company's net ODI penalties relating to AMP6 performance in AMP7 and potential net ODI penalties resulting from AMP7 performance in AMP7 and AMP8. The base case has assumed any rewards or penalties relating to the PCC performance commitment will still be adjusted for as part of the revenue adjustment mechanism to ensure a prudent approach.

The base case cash flow forecast also assumes a further £306.0m of debt is raised via the capital markets throughout the lookout period. Over this period, we are forecasting that £14.0m of funds raised utilising the RCF facility priced at LIBOR+1.3% margin will be outstanding and refinanced.

A further refinancing exercise is forecast to take place in July 2026 when our £250.0m fixed rate bond matures (refer to page 188 for details of our bond maturities). An all-in interest rate of 4% has been projected for this refinancing, which is consistent with the assumptions used in assessing the financeability of our AMP7 Business Plan.

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 STID, in particular the standstill period mechanisms, each lender may declare all amounts outstanding to be immediately due and payable and recoveries would be applied by the Security Trustee in accordance with the payment priorities.

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

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

S1: 10% increase in totex;

S2: 1% decrease in all three inflation metrics (RPI, CPI and CPIH);

S3: 1% decrease in inflation, impacting revenue only;

S4: replacing the base inflation forecast with a negative 1% forecast, while maintaining a 1% increase in expenditure;

S5: one-off exceptional event;

S6: 5% increase in unpaid water customer bills represented by a 5% reduction in revenue;

S7: 1% decrease in inflation impacting revenue only, 5% increase in totex and 5% increase in unpaid water customer bills;

S8: 100% decrease in cash generated by the company's non-appointed business; and

S9: 2% increase in cost of debt.

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

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

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

Viability statement continued

The scenario of negative inflation combined with an increase in expenditure (S4) is intended to reflect conditions during an economic recession (refer to principal risk 15), such as those experienced in 2008/09 and projected as a result of the ongoing Covid-19 pandemic and the energy price crisis. This scenario captures a realistic expectation, when considering the structure of the company's cost base, that in general costs will not fall during a period of negative inflation.

The scenario of a one-off exceptional event (S5) reflects the prospect of an exceptional event with an initial capex requirement of £60.0m and an opex requirement of £20.0m in year 1 to deal with the immediate needs following the event with some legacy impact to opex of £10.0m in year 2 and £5.0m in year 3.

The sensitivity applied in relation to unpaid water customer bills (S6) reflects a severe scenario considering that the risk is spread across our whole customer base. The stress test has been applied across all years, on top of the continued impact of Covid-19, the energy price crisis, and supply chain cost pressures included in the base case. The directors consider that this sensitivity is of a sufficient magnitude to capture also the financial impact in severe scenarios of ODI penalties incurred through worse than planned operational performance (refer to principal risk 5).

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

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

A sensitivity has been applied in relation to cost of debt (S9), as £264.2m of the company's existing bonds are due to mature in the lookout period, in addition to forecast accretion payable on the swaps, and the company has not yet secured financing for expected expenditure commitments beyond AMP7.

The directors consider that this sensitivity reflects a severe scenario of an increase to cost of debt in the context of how the ten-year gilt has performed over the last 20 years. To achieve an all-in coupon, a credit spread has been included that is consistent with the current and historic performance of the £250.0m fixed rate bond, forecast to be refinanced in the lookout period.

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

For the principal risks identified in the principal risk table on page 100 with the icon ●, the directors considered that these risks, if they were to occur, might in isolation threaten financial viability potentially leading to significant unforeseen additional cash requirements during the lookout period in the event of:

- A major asset failure resulting in large-scale interruptions to operations (refer to principal risk 10 and page 64 for further details of this risk and our mitigating activities);
- A major water quality issue (refer to principal risk 2 and page 58 for further details of this risk and our mitigating activities);
- A severe drought incident within our supply region as considered in our Drought Management Plan (refer to principal risk 2 and page 60 for further details of this risk and our mitigating activities); or
- A significant cyber-attack leading to a major loss of customer data or interruption to operations (refer to principal risk 4 for further details of this risk and our mitigating activities).

The directors consider that the sensitivity applied in relation to scenario 5 is of a sufficient magnitude to capture the financial impact of these exceptional items.

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

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

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**	**N/A**	**Met**	**Met**	**Met**	**Met**
01	Not met	Not met	Default	Met	Required	Met	Met	Met	Met
02	Met	Met	Met	Met	N/A	Met	Met	Met	Met
03	Met	Met	Met	Met	N/A	Met	Met	Met	Met
04	Met	Met	Met	Trigger	Required	Met	Met	Met	Met
05	Not met	Met	Default	Met	Required	Met	Met	Met	Met
06	Not met	Not met	Default	Met	Required	Met	Met	Met	Met
07	Not met	Not met	Default	Met	Required	Met	Met	Met	Met
08	Met	Met	Met	Met	N/A	Met	Met	Met	Met
09	Met	Met	Met	Met	N/A	Met	Met	Met	Met

As set out in the table, without mitigation, default or trigger levels would be reached for the interest cover ratio under the sensitivities S1, S5, S6 and S7, and trigger levels would be reached for the gearing ratio under S4, in one or more years over the lookout period. The defaults experienced in years 1, 2 and 3 and the triggers experienced in years 2, 3 and 4 are due to the higher level of forecast expenditure in these years compared to other years in the lookout period due to the phasing of our AMP7 commitments, as well as the reduction in revenue collection as a result of external economic factors. It should also be noted that the base case scenario already includes cost increases relating to the economic impact of Covid-19, supply chain cost pressures, and the energy price crisis, and therefore is effectively already running a down side scenario with all covenants being met.

S1 – without mitigation, a 10% increase in totex would result in default being reached in year 1 and a trigger level being reached in years 2 and 3 of the lookout period for the interest cover ratio, but the covenant would be met in all other years.

S4 – without mitigation, replacing the base inflation forecast with a negative 1% forecast, while maintaining a 1% increase in expenditure, would result in a trigger level being reached for the gearing ratio in years 9 and 10 of the lookout period.

S5 – without mitigation, a one-off exceptional event would result in default being reached on the interest cover ratio in years 1 and 2.

S6 – without mitigation, a 5% increase in unpaid water customer bills represented by a 5% reduction in revenue would result in default being reached on the interest cover ratio in years 1, 2 and 3.

S7 – without mitigation, a 1% decrease in inflation impacting revenue only, 5% increase in totex and 5% increase in unpaid water customer bills would result in default being reached in years 1, 2 and 3 and a trigger level being reached in year 4 of the lookout period for the interest cover ratio.

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

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

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

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

- The company's available liquidity;
- The company's ability to renew its existing short-term borrowing facilities under most market conditions;
- The likely effectiveness of current and planned mitigating actions, as detailed in the principal risk section;
- The company is financially and operationally 'ring-fenced' from the rest of the Affinity Water group by way of the WBS (refer to page 187 for further details); and
- Under the regulatory model, a primary legal duty of Ofwat is to ensure that water companies can finance their functions.

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

Non-financial information statement

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

Reporting requirement	*Information necessary to understand our business and its impact*	*Policies, guidance and standards which govern our approach*[1]
Social matters	• Why our supply area is unique (page 3) • What do we want to be known for (page 4) • Chair's welcome (page 8) • Alignment of culture with purpose, value and strategy (pages 12 and 13) • Performance highlights (pages 16 and 17) • Our business model (page 22) • CEO's introduction (pages 24 to 29) • Our commitment to public value (pages 38 and 39) • Our external environment leadership insights (page 44) • Looking to the future – challenges and opportunities we face (page 50) • Key stakeholder interests (page 53) • Our strategy (pages 54 and 55) • Our customer outcomes (pages 56 and 57) • Our operational performance – providing a great service that you value (pages 62 and 63)	• Our principles (page 5) • Alignment of culture with purpose, value and strategy (pages 12 and 13) • Our business model (page 22) • Our approach to multi-capital thinking (pages 32 to 37) • Ensuring our values are enshrined in everything we do (page 39) • Our strategy (pages 54 and 55) • Maintain BSI standard for inclusive services (page 57) • Sustainability governance (page 70) • Our alignment to UNSDGs (page 71) • Our CCG (pages 87 and 106) • Purchase order terms and conditions and supply of goods and services agreement (page 92)
Environmental matters	• Why our supply area is unique (page 3) • What do we want to be known for (page 4) • Chair's welcome (page 8) • Alignment of culture with purpose, value and strategy (pages 12 and 13) • How we operate (pages 14 and 15) • Performance highlights (pages 16 and 17) • Affinity Water issue first Green Bond (page 19) • Affinity Water on track to complete longest UK river restoration project (page 21) • Our business model (page 22) • CEO's introduction (pages 24 to 29) • Sustainability at a glance (pages 30 and 31) • Our approach to multi-capital thinking (pages 32 to 37) • Our commitment to public value (pages 38 and 39) • Our external environment leadership insights (pages 44 to 47) • Looking to the future – challenges and opportunities we face (page 50) • Key stakeholder interests (page 53) • Our strategy (pages 54 and 55) • Our customer outcomes (pages 56 and 57) • Operational performance – supplying high-quality water you can trust (pages 58 and 59) • Operational performance – making sure you have enough water, whilst leaving more water in the environment (pages 60 and 61) • Operational KPIs (pages 66 and 67) • Sustainability governance and environment (pages 70 to 80)	• Our business model (page 22) • Our approach to multi-capital thinking (pages 32 to 37) • Our strategy (pages 54 and 55) • Sustainability governance (page 70) • Our alignment to UNSDGs (page 71) • Sustainability – our environment (pages 72 to 77) – Strategic Environmental Assessment – Taskforce for Nature-related Financial Disclosures – Environmental handbook – Draft Drought Management Plan – Climate Change adaptation • Task Force for Climate-related Financial Disclosures (pages 78 and 79) • Environmental Policy (affinitywater.co.uk/environment) linked through climate change adaptation (page 76) and TCFD (pages 78 and 79) • Water resources management plan (page 72)

[1] Some policies and standards are only published internally.

Reporting requirement	*Information necessary to understand our business and its impact*	*Policies, guidance and standards which govern our approach*[1]
Employees	• Sustainability social (pages 82 to 85)	• Our principles (page 5) • Equality, diversity and inclusion (pages 84 and 85, 120, 155 to 158) • Safety, health and wellbeing (page 82) • Gender pay gap report (page 181)
Respect for human rights	• Safety, health and wellbeing (page 82) • Equality, diversity and inclusion (pages 84 and 85)	• Safety, health and wellbeing (page 82) • Equality, diversity and inclusion (pages 84 and 85, 120, 155, 157 and 158) • Modern slavery and human trafficking policy (pages 132 and 144)
Anti-corruption and anti-bribery	• Ensuring our values are enshrined in everything we do (page 39)	• Ensuring our values are enshrined in everything we do (page 39) • Anti-bribery and corruption policy (page 138) • Whistleblowing policy (pages 132, 142, 144, and 152) • Systems of risk management, planning and internal controls (page 149)
Description of principal risks	• Principal risks and uncertainties (pages 98 to 111) • Viability statement (pages 112 to 115)	• Systems of risk management, planning and internal controls (page 149) • 'Three lines of defence' assurance processes (page 149) • Compliance Obligations Register (page 151)
Description of business model	• Our business model (page 22)	• Introduction from the Chair (page 122)
Non-financial KPIs	• Performance highlights (pages 16 and 17) • Our operational performance (pages 58 to 65) • Operational KPIs (pages 66 to 68)	• Non-financial performance measured against performance commitments agreed with Ofwat (page 66)

Approval of the Strategic Report

On behalf of the Board

Ian Tyler
Chair

12 July 2022

Governance Report

'Luminate' – shining a light on issues

At Affinity Water, we recognise that how we do what we do is just as important as what we do.

The standards we set ourselves and the commitments we make to our customers, stakeholders, and regulators demand that we operate with the right values, a strong sense of integrity and that we always do the right thing.

In February 2022, we introduced a new whistleblowing service into the business. Supplied by Convercent, an industry-leading Ethics and Compliance platform, the new service is entitled 'Luminate' and is available 24 hours a day, 365 days a year via the web or a dedicated phone line. It is an independent and confidential reporting service that has been publicised across the business, and supports employees to do the right thing by 'shining a light' on issues or concerns that might be incompatible with the standards and values we set ourselves.

Luminate and our partnership with Convercent offers an improved reporting platform, analytics, opportunities for collaboration and insights into legal and compliance best practice. As part of the One Trust Group, Convercent also provides us with significant opportunities for a more holistic approach to our governance programme, including enhanced data governance, privacy, and data protection controls.

Our governance report

Our governance framework and division of responsibilities

We have ensured a clear division of responsibilities.

Read more on page 132

Board leadership and company purpose

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

Read more on page 134

Board balance and effectiveness

We're delivering effectiveness through a balanced Board.

Read more on page 136

Audit, Risk and Assurance Committee report

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

Read more on page 148

Nomination Committee report

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

Read more on page 156

SHEDWQ Committee report

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

Read more on page 162

Remuneration report

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

Read more on page 146

Ownership and financing

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

Read more on page 148

Introduction from the Chair

Dear Stakeholder

On behalf of the Board, I am pleased to introduce our Corporate Governance report for 2021/22.

This report sets out how we satisfy the high standards of governance that are required of a regulated water company, and are expected by our shareholders, regulators and the public.

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

The Board also provides leadership by defining the company's purpose, strategy and principles, and oversees their implementation by management. Every director exercises independent judgement in all Board matters, and brings considerable knowledge and expertise that are valued by the Board.

The publication 'Consulting With Our Shareholders' outlines how and on what subjects we've recently been engaging with our shareholders. You can find it on our website at affinitywater.co.uk/governance-assurance.

Board Composition and Succession planning

During the year, we announced changes to the composition of our Board. Roxana Tataru was welcomed to the Board as a shareholder representative non-executive director of Allianz Capital Partners, replacing Jaroslova Korpanec. Pauline Walsh stepped down from the Board as CEO, and was replaced by the CFO, Stuart Ledger, who was then appointed interim CEO.

Susan Hooper and Tony Roper also resigned from the Board at the end of March 2022. Tony Roper was succeeded by Mike Osborne, who replaced Tony on the three Committees detailed in his biography on page 129.

Susan Hooper's position on the Board was not replaced, as we already had a sufficient balance of independent non-executive directors. This was in compliance with Ofwat's Board Leadership Transparency and Governance Principles 2019 ('BLTG Principles'), the UK Corporate Governance Code 2018 and our own Affinity Water Corporate Governance Code ('AW Code'). Susan's position as Chair of the Remuneration Committee was assumed by Trevor Didcock.

Justin Read was also nominated to join the Remuneration Committee. Justin brings with him a wealth of experience, having chaired Remuneration Committees in a variety of industries, and also brings experience of executive leadership within a listed environment.

At the beginning of January 2022, Jaroslava Korpanec re-joined the Board as an alternate director to Roxana Tataru, who is currently on maternity leave. Further details on recommending appointments to the Board and ensuring succession planning can be found in the Nomination Committee Report on pages 156 to 160.

Culture and Values

Good governance and a strong culture are integral to Affinity Water's long-term success. Our Board is committed to upholding the highest standards of governance to both protect our stakeholders' long-term interests, and also ensure that we fulfil our social and environmental obligations.

Our company's culture defines the way we do business. Affinity Water continues to provide guidance and mandatory training at all levels to make sure our employees act in accordance with our principles, and are always following our Code of Conduct.

Equality, Diversity and Inclusion

The Board is committed to making sure our company is a place where all employees can feel valued and respected, and are given the opportunity to fully realise their potential. Our Equality, Diversity and Inclusion Committee meets regularly, and is attended by Trevor Didcock (the designated Board Director for Employee Engagement). This Committee works to discuss steps for change, and helps set the course for a more equal, diverse and inclusive future for the company.

You can read more about Affinity Water's work to create an inclusive culture on page 160.

Board Effectiveness Review

The Board undertakes an annual review of its own and its Committees' performance and effectiveness. This year, the Board effectiveness review was facilitated by Independent Board Evaluation, an independent consultancy specialising in Board effectiveness reviews. Details of this year's Board evaluation findings, and our plan to address issues and updates on the 2020/21 review, can be found on pages 138 to 139 of this Corporate Governance Report.

Looking forward

I am grateful to the Board and all our employees for their commitment to creating value for all stakeholders, and contributing to the good governance and stewardship of our business. During the coming year, the Board will continue to focus on the company's recovery from the Covid-19 crisis, and the strategic opportunities this will present for PR24. This will allow us to continue with our currently ongoing investment plans, and ultimately deliver a better service and an improved water quality for our customers.

Ian Tyler
Company Chair

12 July 2022

Governance at a glance

Highlights from our year

Meetings held

12

Hybrid meeting percentage

50%

Attendance

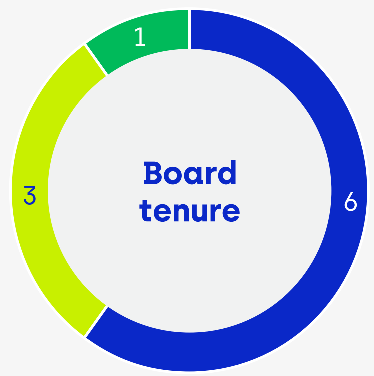
98%

Documents available on our website

- **Matters Reserved to the Board** affinitywater.co.uk/docs/governance/AWL-Matters-Reserved-for-the-Board-Sep-2017-draft.pdf
- **Non-Executive Director Letters of Appointment** affinitywater.co.uk/corporate/about/governance-assurance
- **Terms of References for Board Committees** affinitywater.co.uk/corporate/about/governance-assurance

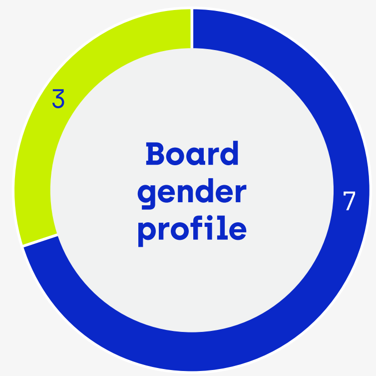
Board composition

All appointments to the Board are subject to a formal, rigorous, and transparent procedure.

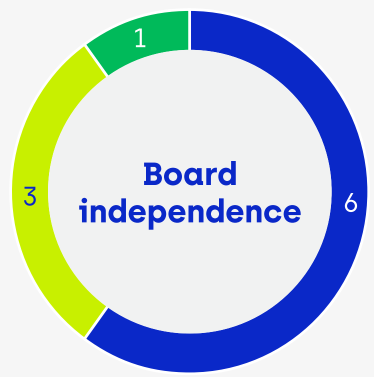


Female: 30%

Male: 70%



Independent non-executive directors are the largest group on our Board.



Our Board includes an appropriate combination of executive and non-executive directors.

Major Board decisions

Jun 21	SDS approved
Sept 21	Long Term Financial Plan ('LTFP') approved
Sept 21	Green Finance approval
Nov 21	Solar Phase 2 programme approved

Our Board of Directors

Key:
- A Audit, Risk and Assurance Committee
- R Remuneration Committee
- N Nomination Committee
- S Safety, Health, Environment and Drinking Water Quality Committee ('SHEDWQ Committee')

Where a director holds other directorships within the Affinity Water Group, the numbers listed alongside their name are cross referenced to the relevant company shown on the structure chart on page 184.

1 Ian Tyler
Chair

R N S

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

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

Ian was Chair of Vistry Group plc (formerly Bovis Homes Group plc), Independent Chair of the AWE Management Limited, (a joint venture between Lockheed Martin, Serco and Jacobs Engineering, which operates the Atomic Weapons Establishment on behalf of the Ministry of Defence). He was also a NED at BAE Sytems plc and Cairn Energy plc.

He currently sits on three other boards; NED and Chair of Amey plc (a subsidiary of Ferrovial S.A.), NED at Anglo American plc and NED and Chair of the Remuneration Committee at Synthomer plc.

2 Mike Osborne
Non-Executive Director

N S

2 3 4 5 6 11

3 Jaroslava Korpanec
Non-Executive Director

A R N

2 3 4 5 6 11

4 Trevor Didcock
Independent Non-Executive Director

R N S

5 Stuart Ledger
Interim CEO

S

1 2 3 4 13

Stuart has significant experience in utilities and in finance. Stuart joined the company as CFO in October 2017 before being appointed Interim CEO on 8 September 2021. He has held a number of senior finance roles, most recently CFO for Retail at Thames Water.

Before joining Thames Water in 2008 as the Group Financial Controller, he was the Financial Controller at Wolseley and started his career at EDF Energy. Stuart is a director of Landlord Tap Limited, which provides a website for landlords and managing agents of residential properties to provide water companies with details of those responsible for the payment of water and/or sewerage charges for their tenanted properties. He is also a trustee of the charity, Rett UK. Stuart has a BA in Economics from Liverpool John Moores University, is a Chartered Accountant and a member of the Pensions Management Institute.

6 Angela Roshier
Non-Executive Director

R S

2 3 4 5 6 7 8 9 10 11

7 Mark Horsley
Independent Non-Executive Director

A R

8 Ann Bishop
Independent Non-Executive Director

R N

9 Chris Newsome
Independent Non-Executive Director

A S

10 Justin Read
Independent Non-Executive Director

A R N

Changes to the Board directors:

Roxana Tataru
Joined 1 July 2021. Currently on maternity leave.

Jaroslava Korpanec
Resigned from the Board on 28 June 2021 and rejoined as an alternate to Roxana Tataru on 4 January 2022.

Pauline Walsh
Resigned on 8 September 2021.

Susan Hooper
Resigned on 31 March 2022.

Tony Roper
Resigned on 31 March 2022.

Mike Osborne
Joined 1 April 2022

Our Board of Directors continued

Independent non-executive directors

1 Trevor Didcock

Senior Independent Non-Executive Director

R N S

Date of Appointment
November 2015

Career
Trevor was Chief Information Officer ('CIO') at EasyJet plc from 2010 to 2015, HomeServe plc from 2008 to 2010, the Automobile Association Limited from 2003 to 2007 and Group IT Director at RAC Motoring Services Limited from 1999 to 2003.

Skills and Experience
Trevor has experience in a number of industry sectors as a CIO and Group IT Director.

Current External Appointments
He is a NED at Futurice Oy (a digital innovation and engineering company) and chairs Futurice Ltd and is a non-executive member of the Steering Committee of the Airspace Change Organising Group.

2 Mark Horsley

Independent Non-Executive Director

A R

Date of Appointment
December 2019

Career
Mark began his career as an apprentice cable jointer at North Eastern Electricity Board. Previous roles include; Equity Partner and Head of Power Distribution at EC Harris, an international built asset consultancy; Strategy and Central Programmes Director at Scottish Power; and President and Chief Operating Officer at CE Electric UK. He was Chair of the Energy Innovation Centre ('EIC') from 2014 to 2017, and Chair of the Energy Network Association from 2004 to 2006.

Skills and Experience
Mark has over 40 years' experience in the energy sector – particularly gas and electricity network businesses.

Current External Appointments
He is currently CEO of Northern Gas Networks, the North of England's gas distributer, and has been in that role since 2011. He is also a NED of the Energy Innovation Centre ('EIC').

3 Ann Bishop

Independent Non-Executive Director

R N

Date of Appointment
March 2020

Career
Ann was the founder and managing director of Indepen, a management consultancy working with clients facing the challenges of regulation, deregulation, competition, and restructuring. Before founding Indepen in 1990, she was in the Strategy Group in Deloitte's management consultancy, with clients in retail and financial services, including establishing regulatory authorities following the liberalisation of the UK's capital markets.

Skills and Experience
Ann has over 30 years' experience in the regulated sectors working with investors, chairs, chief executives, board members and senior executive teams in utility and financial services companies, government agencies and regulators. She has advised on price reviews and industry reform and has a good understanding of the water industry, regulated energy networks and rail networks in the UK, Australia, SE Asia, and Central Europe. She has a BA and an MA (Cantab).

Current External Appointments
Ann chairs the independent Customer Engagement Group for UK Power Networks.

4 Chris Newsome

Independent Non-Executive Director

A S

Date of Appointment
January 2019

Career
Chris has extensive experience across large, regulated infrastructure businesses and over 40 years' experience within the water industry (at Yorkshire Water, Kelda Water and Anglian Water).

Skills and Experience
Chris has a BSc in Civil Engineering from Loughborough University, an MBA from the Manchester Business School, and a post-graduate diploma in Structural Engineering from the University of Bradford.

Current External Appointments
Chris is a member of the Government's Green Construction Board and chair of its Infrastructure Group. He is a director of the U.K. Water Partnership Limited and is also a Past President of the Institute of Asset Management.

5 Justin Read

Independent Non-Executive Director

A R N

Date of Appointment
July 2020

Career
Before starting his non-executive 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. Justin has an MBA from INSEAD in France and a BA and MA in Modern History from Oxford University.

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.

Current External Appointments
Justin is the Senior Independent Director and Chair of the Audit Committee and a 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 Ibstock plc and Marshall of Cambridge (Holdings) Ltd.

Key:

Director membership of our Board Committees is also listed by letter, alongside the relevant director's name:

- A Audit, Risk and Assurance Committee
- R Remuneration Committee
- N Nomination Committee
- S Safety, Health, Environment and Drinking Water Quality Committee ('SHEDWQ Committee')

Our Board of Directors continued

Shareholder Nominated Independent Non-Executive directors

1

Angela Roshier

Non-Executive Director

R S

2 3 4 5 6 7 8 9 10 11

Date of Appointment
May 2017

Career
Prior to DIF Capital Partners ('DIF'), Angela was a member of 3i plc and Actis's Infrastructure teams.

Skills and Experience
Angela has more than 24 years' experience and has contributed to the origination and asset management of a wide variety of infrastructure assets in the PPP, water, renewable energy, digital, and transportation sectors globally. She holds a MBA from London Business School and a MA from the University of Cambridge.

Current External Appointments
Angela is Partner and Head of Asset Management at DIF. She joined DIF in 2010 and oversees the asset management of DIF's investment portfolio of approximately 120 assets. She is also a member of DIF's Executive Committee and Investment Committees. She is responsible for the ESG strategy at DIF and has been instrumental in DIF achieving a United Nations' Principles for Responsible Investment score of A+.

3

Jaroslava Korpanec

Non-Executive Director

A R N

2 3 4 5 6 11

Date of Appointment
January 2022

Career
Jaroslava worked at AIG Financial Products on several debt and equity investments, including the acquisition and management of London City Airport. She has led the investments made in a number of infrastructure assets, including the Thames Tideway Tunnel, Porterbrook (the train rolling stock leasing business) and the gas distribution business of National Grid. She was also responsible for Allianz's acquisition of NET4GAS, in 2013, and Gasnet in 2019. She was one of the founding partners and under her supervision the investment portfolio grew to an impressive long-term buy and hold portfolio with over 25 assets under management.

Skills and Experience
She holds a BA and MA in Law from the University of Cambridge and is a member of the New York bar and a solicitor of the Supreme Court of England and Wales.

Current External Appointments
Jaroslava is Managing Director at Allianz Capital Partners and leads the direct infrastructure investment business of Allianz Capital partners in the London office. She also leads the acquisition of affinity water as well as Cadent gas distribution from national grid and GGND, which is the gas distribution business of Galp Natural in Spain.

2

Mike Osborne

Non-Executive Director

N S

2 3 4 5 6 11

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 was also an investment professional with Citi Infrastructure Investors, where he worked on asset management and a variety of acquisitions and divestments.

Skills and Experience
Mike is a Director at InfraRed Capital Partners. He spent six years with Corsair Capital as a Principal, where he also served as a director 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). He holds an MChem degree in chemistry from the University of Oxford.

Current External Appointments
Mike is also a director of High Speed One Limited.

Key:

Director membership of our Board Committees is also listed by letter, alongside the relevant director's name:

- A Audit, Risk and Assurance Committee
- R Remuneration Committee
- N Nomination Committee
- S Safety, Health, Environment and Drinking Water Quality Committee ('SHEDWQ Committee')

Executive Management Team

The Executive Management Team ('EMT') is established by the Chief Executive Officer to assist with the development and execution of the company's strategy. Individual Executive Management Team members are responsible for leading their directorates and ensuring their areas of the business are being run effectively and efficiently. Full biographies for each member of the Executive Management Team are available on the Affinity Water website.

1

Steve Plumb
Director of Asset Strategy and Capital Delivery

Joined Affinity Water Limited in April 2021 as the Director of Asset Management and in January 2022 became Director of Asset Strategy and Capital Delivery.

2

Liv Walton
Director of Regulation and Strategy

Joined Affinity Water Limited in March 2022 as the Director of Regulation and Strategy.

3

Sunita Kaushal
General Counsel and Company Secretary

Joined Affinity Water Limited in April 2020 as the General Counsel and Company Secretary.

4

Anton Gazzard
Director of Customer Delivery

Joined Affinity Water Limited in September 2007 and in January 2022 became the Director of Customer Delivery.

5

Rachael Hollings
People Director

Joined Affinity Water Limited in January 2022 as the People Director.

6

Stuart Ledger
Interim CEO

See Stuart's full biography on page 125.

7

Joe Brownless
Director of Customer Experience and Technology

Joined Affinity Water Limited in June 2019 as the Director of Customer Experience, and in January 2022 became the Director of Customer Experience and Technology.

+ 8

Mike Thomas
Interim CFO

Joined Affinity Water Limited in January 2022 as the Interim Chief Financial Officer.

Corporate governance report

Our governance framework and division of responsibilities

Governance framework

We pride ourselves on conducting our business in an open and transparent manner.

The Board has a clear corporate governance framework comprising matters reserved for the Board and various Board Committees with clear terms of reference.

Our Board is primarily responsible for setting the company's strategy for delivering long-term value to our shareholders and other stakeholders, providing effective challenge to management concerning the execution of the strategy and ensuring the company maintains an effective risk management and internal control system.

The Board

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

The Schedule of Matters Reserved for the Board are available on the company's website at: affinitywater.co.uk/corporate and members of the Board appear in the directors' biographies on pages 125 to 129.

Read more about our Strategy on **pages 54 and 55**

Read more about our principal risks on **pages 100 to 111**

Read more about our Section 172(1) statement on **pages 86 to 96**

Read more about key activities of the Board on **page 140**

Board Committees

Audit, Risk and Assurance Committee

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

Remuneration Committee

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

Nomination Committee

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

SHEDWQ Committee

Reviews and monitors health and safety, environment, drinking water quality and personal security matters arising from our activities and operations.

The terms of reference of each Board Committee are available on the Company's website at: affinitywater.co.uk/corporate and members of the Committee are listed in the various Committee Reports

Read more about our Audit, Risk and Assurance Committee report on **page 148**

Read more about our Remuneration report on **page 164**

Read more about our Nomination Committee report on **page 156**

Read more about our SHEDWQ Committee report on **page 162**

Chief Executive Officer

Executive Management Team

The Executive Management Team meets on a monthly basis and is responsible for the day-to-day running of the business.

Shareholders and Stakeholders

Roles and responsibilities of the Board

Board members have separate clearly defined roles and responsibilities, as illustrated in the table below. Their roles and responsibilities are well defined, set out in writing and approved by the Board.

Role	Name	Responsibility
Chair	Ian Tyler	The Chair leads the Board and is responsible for its overall effectiveness in directing the company. He promotes a culture of openness and debate facilitating constructive Board relations and the effective contribution of all non-executive directors, and ensures that the Board receive accurate, timely and clear information
Interim Chief Executive Officer	Stuart Ledger (with effect from 8 September 2021) Pauline Walsh (CEO to 8 September 2021)	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 operational management of the company, supported by the Executive Management Team
Senior Independent Non-Executive Director ('SID')	Trevor Didcock	The SID is an Independent Non-Executive Director, who provides a sounding board for the Chair and serves as an intermediary for the other directors and shareholders where necessary. The SID also leads the annual appraisal and review of the Chair's performance
Non-Executive Director of Employee Engagement	Trevor Didcock	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	Ann Bishop Trevor Didcock Susan Hooper Mark Horsley Jaroslava Korpanec (Alternate) Chris Newsome Justin Read Tony Roper Angela Roshier Roxana Tataru	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	Sunita Kaushal	The Company Secretary acts as Secretary to the Board and all Board Committees and is responsible for supporting the Chair of the Board in the delivery of the corporate governance agenda

Corporate governance report
Board leadership and company purpose

How the Board operates

The Board and its Committees have a scheduled forward programme of meetings, which allow 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 Committee are required to be clear and concise. They are circulated five working days before the meeting, and are accessed through a secure online portal.

The authors of Board papers and reports are sometimes invited to join Board discussions. This allows directors to examine the information provided in detail, and question management directly. Minutes of Board and Board Committee meetings are circulated by our Company Secretary after each meeting.

All directors have access to our Company Secretary, as well as the right to request that any Board challenge is recorded in the minutes of a meeting. No dissenting votes or instances of a challenge were recorded in the minutes of Board meetings during this financial year.

How governance supports strategy

The Board is responsible for delivering value for shareholders by setting the Group's strategy, and overseeing its implementation by the Executive Management Team.

Our strategic priorities and four customer outcomes are set out in the business model on page 156 onwards in the Strategic Report.

The Board held a 'strategy day' in September 2021, where it conducted a detailed review of our strategy (including our purpose and strategic objectives). Members of the Executive Management Team were invited to present on specific matters. The Board receives regular updates on the progress of delivering the strategy throughout the year.

Risk management

Our governance arrangements support the development and delivery of strategy, while ensuring the long-term success of our business by maintaining a sound system of risk oversight, management, and an effective suite of internal controls. These are outlined on page 151 in the Audit, Risk and Assurance Committee Report.

Purpose, values and culture

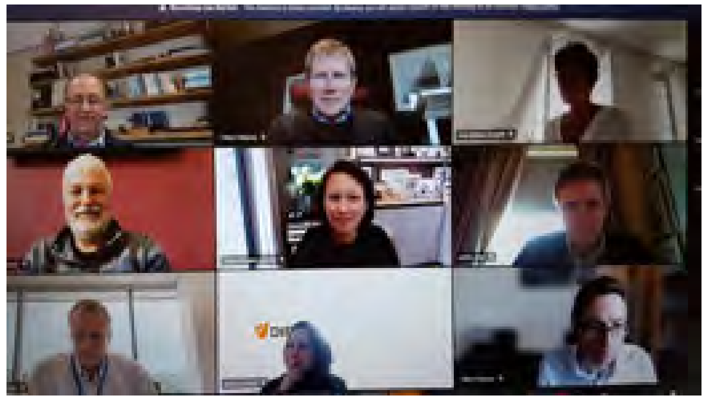
A company's purpose describes, in clear and simple terms, why that company exists.

Our company's purpose is: '**to provide high-quality drinking water and take care of our environment for our communities now and in the future**'.

To serve that purpose effectively, we have defined a company culture based on the principles of **being proactive, making it easy, showing we understand, showing we care, and doing what we say we will**. These principles outline the expectations placed on every Affinity Water employee when they do their work.

The Board has reaffirmed the company's purpose and principles, and supports Affinity Water's AMP7 Plan, which details the company's strategy. The Board has satisfied itself that the company's purpose, strategy and principles are all aligned.

The Board also continues to make sure the company's principles are embedded in its operational practices through a range of corporate policies. These include our Code of Conduct, Health and Safety, Security, Environmental, Data Protection, Procurement, Whistleblowing and Modern Slavery and Human Trafficking.



Board meetings attendance

Due to the pandemic, the Board and its Committees have this year conducted meetings both in-person and remotely (via video conferencing). Where a director was unable to attend a meeting, they still received all papers for the meeting, and were given the opportunity to raise issues outside the meeting.

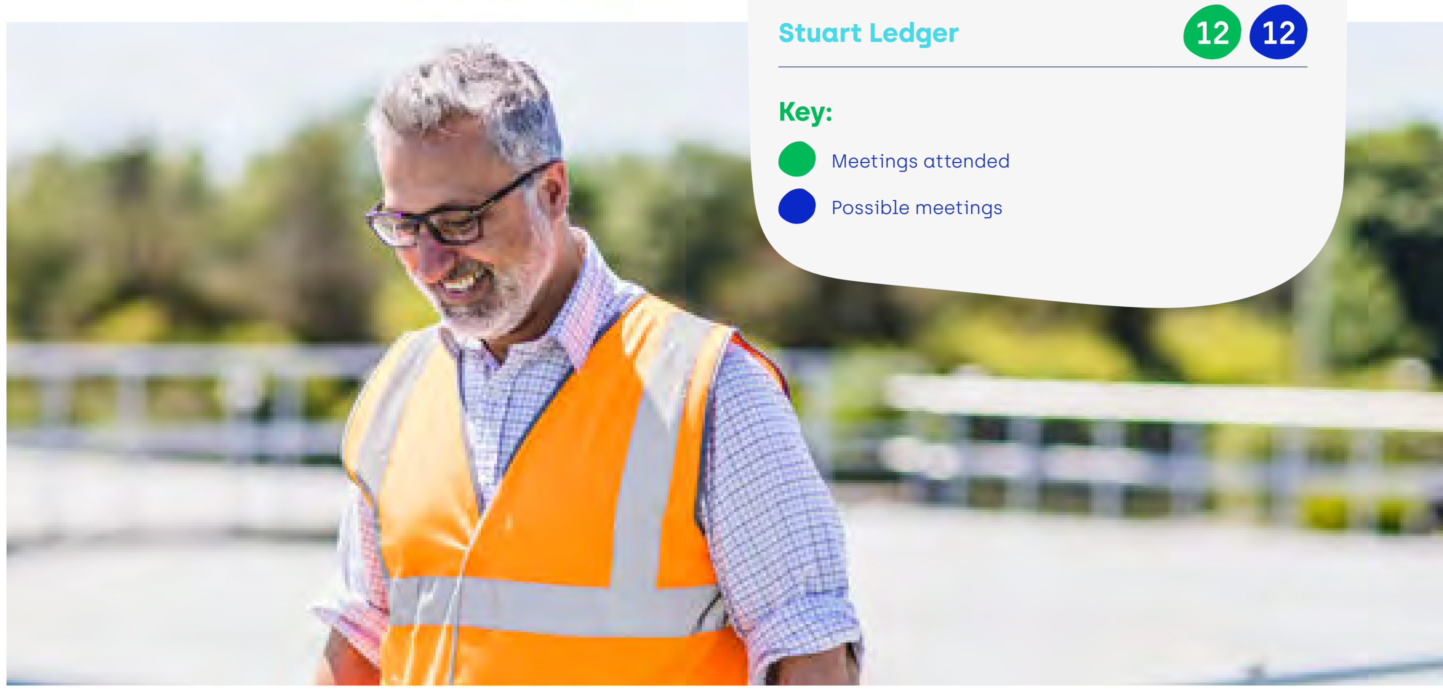
Successfully utilised Microsoft®

TEAMS

Board meetings

	Meetings attended	Possible meetings
Company Chair		
Ian Tyler	12	12
Independent Non-Executive Directors		
Trevor Didcock	12	12
Mark Horsley	12	12
Chris Newsome	12	12
Ann Bishop	12	12
Susan Hooper	11	12
Justin Read	12	12
Non-Executive Directors		
Jara Korpanec	06	12
Tony Roper	11	12
Angela Roshier	12	12
Roxana Tataru	05	12
Executive Directors		
Pauline Walsh	05	12
Stuart Ledger	12	12

Key:
- Meetings attended
- Possible meetings



Corporate governance report
Board leadership and company purpose continued

Independence of the Board
Our Board comprises seven Independent Non-Executive directors, including the Chair; three Non-Executive directors and an alternate Non-Executive director representing our shareholders; and one Executive director, the Interim Chief Executive Officer.

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.

As per our Code, independent Non-Executive directors are also in a majority on all Board Committees.

External directorships and time commitment
The company is mindful of the time commitment required from non-executive directors to effectively fulfil their responsibilities on the Board.

Prior to their appointment, prospective directors are asked to provide details of any other roles or significant obligations that may affect the time available for them to commit to the company.

The Chair and the Board are then kept informed by each director of any proposed external appointments or other significant commitments as they arise.

These are monitored to ensure that each director has sufficient time to fulfil their obligations and Board approval is required prior to a director taking on any additional external appointment.

Each director's biographical details, independence, and significant time commitments outside of the company are set out in the directors' biographies on pages 125 to 129.

Conflicts of interest
To further safeguard its independent judgement and to prevent the undue influence of third parties on the Board's decision making, the Board operates a conflict of interests' policy, which restricts a director from voting on any matter in which they might have a personal interest unless the Board unanimously decides otherwise.

Prior to all major Board decisions, the Chair requires the directors to confirm that they do not have a potential personal conflict with the matter being discussed. If a conflict does arise, the director is excluded from discussions and voting on the matter.

Board balance
An effective Board requires the right mix of skills and experience. Our Board is a diverse and 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 and 30% are female.

The composition of the Board as at 31 March 2022 is illustrated, refer to page 123.

Board appointments
Appointments to our Board are made on the recommendation of the Nomination Committee with due consideration given to the benefits of diversity in its widest sense, including gender, social and ethnic backgrounds, and personal strengths. The Nomination Committee Report on pages 156 to 160 provides further information on:

- Board composition;
- Board appointments, induction, and training;
- Succession planning; and
- Diversity.

Board skills and attributes
Our directors' biographies on pages 124 to 129 highlight their experience and the chart below provides an overview of their skills and attributes.

		Stuart Ledger	Ian Tyler	Trevor Didcock	Susan Hooper	Chris Newsome	Mark Horsley	Ann Bishop	Justin Read	Roxana Tataru	Angela Roshier	Tony Roper
Industry	Utility Industry / Network Experience	◆	✱	✱	●	◆	◆	◆	●	●	✱	●
	Relationships with Regulators	●	●	●	●	●	◆	◆	●	✱	✱	●
Corporate Governance	UK Corporate Governance	◆	◆	✱	◆	◆	◆	◆	◆	●	●	◆
Strategy	Strategy Development and implementation	◆	◆	◆	◆	◆	◆	◆	◆	●	◆	✱
Finance	Financial planning and analysis	◆	◆	✱	✱	✱	✱	●	◆	●	●	◆
	Capital structuring / Treasury	◆	✱	●	●	●	✱	●	◆	◆	◆	◆
	Financial Reporting and Controls	◆	◆	✱	✱	✱	✱	●	◆	✱	●	✱
Risk	Corporate Risk Management	✱	✱	✱	◆	✱	◆	◆	◆	✱	✱	✱
	Health, Safety, Environment and Quality ('HSEQ')	●	✱	●	●	◆	◆	●	●	●	◆	●
Customer	Customer insight and engagement	✱	●	●	✱	●	◆	◆	●	●	●	●
IT	Information Systems	✱	●	◆	✱	●	✱	●	✱	●	●	✱
	Data analytics	●	●	◆	●	●	✱	●	●	●	●	●
Assets	Programme Management	✱	✱	◆	●	◆	◆	●	●	●	●	✱
	Engineering and Design	●	●	●	●	◆	✱	●	●	●	●	◆
	Systems and Resilience	●	●	✱	●	✱	◆	●	●	●	●	●
ESG	Environmental/sustainability	●	●	●	◆	✱	◆	◆	●	●	◆	●
	Social Value	●	●	●	✱	●	◆	◆	●	●	◆	●
People	People management	✱	✱	◆	◆	✱	◆	✱	✱	●	◆	✱
	Executive remuneration	◆	◆	●	◆	●	◆	✱	◆	✱	◆	✱
Change	Culture change	✱	✱	◆	◆	✱	◆	◆	✱	●	✱	●
	Transformation and turnaround	◆	✱	◆	✱	✱	◆	✱	✱	✱	●	●

◆ Primary Capability – direct experience through executive responsibility, professional training and qualification, or specific Board responsibility (e.g. committee chairmanship)

✱ Secondary Capability – indirect experience through executive responsibility or area of specific Board focus (e.g. through committee membership)

● Background experience only

Corporate governance report
Board leadership and company purpose continued

Independently evaluating our Board

The Board undertakes a review of its effectiveness annually. An external evaluation was undertaken during the year by Independent Board Evaluation ('IBE'). The questions assessed both the performance of the Board, and each of its principal Committees, as well as that of the Chair and each of the Non-Executive directors. To balance the view of the Board, a group of non-board participants were interviewed for the evaluation. These included shareholder observers, the Interim CFO and senior management who attend Board and Committee meetings, plus PWC. A discussion of the results of the Board effectiveness review was undertaken in May 2022.

2020/21 Internal evaluation

2021/22 External evaluation

2022/23 Internal evaluation

Board evaluation process

Determined Format

The evaluation team had an orientation, reviewed key documents and scheduled interviews.

Conducted Evaluation

Attended Board and Committee meetings and had meetings with Board members and key non-board contributors.

Reviewed Feedback

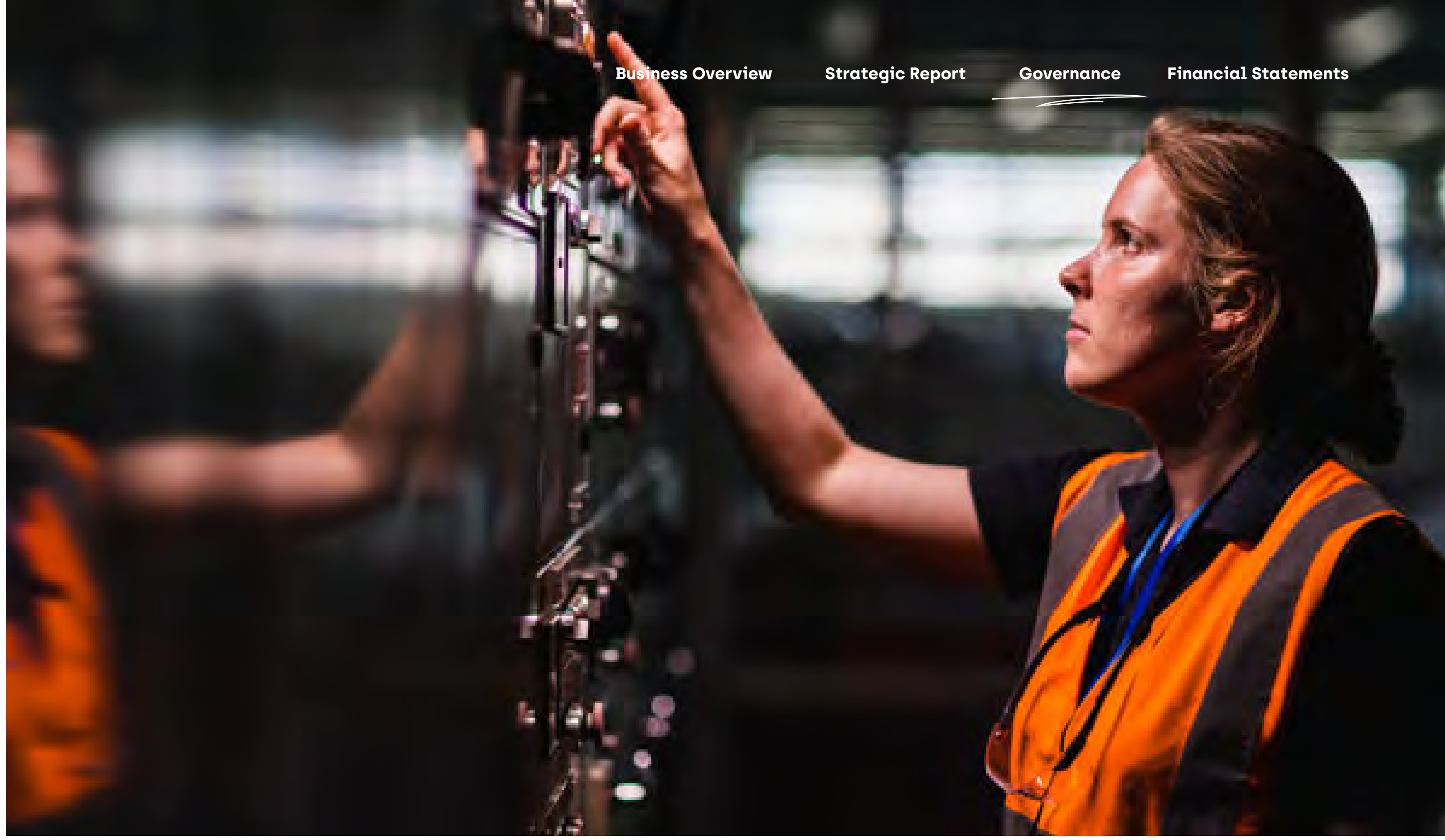
Collated benchmarking data and evidence from the interviews into draft reports and formulated draft recommendations.

Responded to feedback

The Board discussed feedback and next steps including formulating its own action plan.

2021/22 evaluation findings

Area	Plan to address issues
Boardroom Culture	• Incorporate pre and post-meeting private sessions. Chair to meet with NEDs individually. • Appoint all NEDs to Nom Committee, add Governance to remit, agree the appointment process for CEO and CFO. • Look at practicalities of Board composition and size, role of independent. • Identify areas where working groups would help Board process, and the EMT. • Ask observers to observe and invite members only to committees.
Strategy	• Review the Board agenda – Risk, Strategy, PR24, ESG, culture, table board sessions accordingly, transition for SHEDWQ. • Use the Company Secretary to orchestrate meetings, and invite General Counsel ('GC') comment when needed, share planners widely, train on Terms of Reference ('TORs'). • Review Board papers and formats – to serve up strategic debate. • Nomination Committee agenda – current and existing skills, Board education (regulatory).
ESG	• Track good practice in the industry on ESG-related activity and reporting, track how the Board is spending its time.
Risk	• Top level horizon scanning at the Board, granular approach to individual risks at Audit, Risk and Assurance Committee ('ARAC'). • Escalation mechanisms, membership important – avoid the mini board.
Engagement	• Map out stakeholder engagement plans – and report back into the boardroom. • Map Board engagement with culture of the business • Senior Team talent and development, succession discussions and diversity initiatives throughout.
Shareholders	• Shareholder plans to be explored, and tabled through the Board objectives discussion.



Update on 2020/21 outcomes

Area	Plan to address issues
Board decision making	• Management has improved the timeliness and quality of information provided to the Board and its Committees. A revised Delegation of Authority was approved to clarify decision making authority.
Succession planning	• Succession plans for senior management developed.
Risk appetite	• Workshop on risk appetite was held reviewing principle risks and emerging risks.
Board and Executive Management Team relations	• There was more interaction between the Board and EMT members both formally and informally and included a joint dinner.

Corporate governance report
Board leadership and company purpose continued

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

Area	What was reviewed and considered?
Strategy	• Approved the company's ongoing response to Covid-19 • Reviewed the energy efficiency and property strategies • Reviewed and monitored the company's business strategy • Approved the company's AMP7 Investment Plan and continuous transformation programme • Approved sustainability plans to protect chalk streams within our supply area • Approved our Green Finance Framework and issuance of our first green bond
Finance	• Approved the Annual Report and Financial Statements for the financial year ended 31 March 2021 • 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
PR24	• Approved the long-term Strategic Direction Statement for publication • Reviewed the proposed approach to PR24, the decision framework and assurance statement • Reviewed financial assumptions for the business plan narrative • Reviewed the Water Resources Management Plan
People	• Reviewed EMT pensions for alignment with all employees • Approved the appointment of a new Independent Non-Executive Director and an Interim CEO • Approved the company's Policy on Modern Slavery and Human Trafficking • Reviewed Gender Pay Gap and Equal Pay as part of our strategy on Ethnicity, Diversity, and Inclusion ('EDI') • Approved the 2022/23 workforce pay settlement
Governance	• Undertook an external Board Effectiveness Review led by Independent Board Evaluation ('IBE') • Considered the Board and Board Committee evaluation reviews • Undertook a review of stakeholder engagement and the strength of each relationship • Reviewed the terms of reference of all Board Committees • Reviewed and approved updated company policies on Fraud; Anti Bribery and Corruption; and Health and Safety • Introduced a new Board Skills Matrix

At each Board meeting there are standing items, which include:

- Review and approval of the previous minutes
- Status update on any matters outstanding from previous meetings
- Committee updates to the Board
- Report from the Chief Executive Officer
- Report from the Chief Financial Officer

Board's input into PR24 consultations

Ofwat's 2024 price review ('PR24') outlines four ambitions for stakeholders and the environment. Our Board has been engaged with PR24 consultations on several occasions to make sure we are aligned with these conditions, and can meet Ofwat's concerns about climate change, consumer expectations and affordability:

During FY2021
SDS developed with stakeholders, customers, and colleagues. Sets out our four strategic ambitions approved by the Board.

July 2021
Two workshops with EMT members facilitated by KPMG to seed strategy development with Board oversight.

August 2021
First draft Executive summary and strategic intents produced and reviewed by the Board.

September 2021
Review with Programme Board and Full Board.

October 2021
Further drafting and review with Programme Board and PR24 EMT sub-committee including Board oversight.

November 2021
Four workshops with PR24 team based on WRMP, Finance & Regulation, Asset Plan and PCs, and Customer themes with Board review and oversight.

December 2021
Five surgeries with PR24 team focused on water quality, energy, and carbon, operational, customers and regulation with Board review and oversight.

January 2022
Review with EMT Sub-Committee and Board.

February 2022
Review of Customer engagement (Water Community and Focus Groups)

Stakeholder engagement.

March 2022
Review final draft with EMT Sub-Committee and Full Board.

In to FY2023
Review of key points triggered when:

- Ofwat issue methodology
- We prepare key versions of our plan

Fair Tax Mark

Our accreditation for Fair Tax Mark continued during the year.

The Fair Tax Mark is an independent, not for profit community benefit society. The certification scheme was launched in 2014 and seeks to encourage and recognise organisations that pay the right amount of corporation tax, at the right time and in the right place.

It is hugely important to our customers and shareholders that we pay our fair share of tax.

In achieving the Fair Tax Mark accreditation, Affinity Water has shown that it is willing to be completely transparent about how the company is governed, and how its tax affairs are arranged. In this year, as before, all of Affinity Water's activities are fully taxable in the UK.

We are pleased to have met the high standards of the Fair Tax Mark, and to be awarded with this certification for the fourth year running"

Mike Thomas
Interim CFO

Our genes

- Stewards of the local environment
- Helping customers use water better
- Giving customers an exceptional experience

Corporate governance report

Board leadership and company purpose continued

Affinity Water Governance Code

The company is committed to high standards of corporate governance and transparency, believing these to be essential in delivering the long-term success of our business. The Board governs the company in accordance with the Affinity Water Corporate Governance Code ('AW Code'). This incorporates the Ofwat Board Leadership, Transparency and Governance Principles 2019 ('BLTG Principles') in their entirety, and those parts of the UK Corporate Governance Code 2018 that are deemed relevant to its business.

With the exception of aligning executive directors' pension contributions with those of the workforce (see details in the Remuneration Committee Report on page 164), the company was compliant with all areas of the UK Corporate Governance Code 2018.

This Report illustrates how the AW Code principles have been applied, and how Affinity Water has complied with the code's provisions during the year ended 31 March 2022. In doing so, we believe it fulfils the Ofwat Licence requirement to explain how we meet the objectives of the BLTG Principles in a manner that is effective, accessible and clear. The AW Code is available on the company's website: **affinitywater.co.uk/governance-assurance**. Our Board confirms that the principles of good corporate governance contained in the AW Code have been consistently applied throughout the financial year.

Engagement with our stakeholder groups

Our business has an impact on and is affected by a number of different groups.

These include our employees, our shareholders, and the bodies that regulate us. These are our stakeholders. This section details who we've spoken to, and worked with, those stakeholders over the past financial year.

Regulator Engagement

Ofwat

As a water company, Ofwat is both our regulator and stakeholder, with which we have a regular dialogue led by our Director of Regulation and Strategy and our Director of Asset Strategy and Capital Delivery. Our dialogue includes consultations on all aspects of the water industry, our governance, pricing and PR24 preparations.

To ensure that we are better aligned with the 2019 BLTG Principles, we incorporated four BLTG objectives into the AW Code as follows:

Purpose, values and culture

Affinity Water Objective:

The Board must establish the company's purpose, strategy, and values, and satisfy itself that these and its culture reflect the needs of all those it serves.

- Embedding our purpose and principles
- Greater stakeholder engagement
- Development of workforce policies
- Implementing our culture change initiative

Board leadership and transparency

Affinity Water Objective:

The Board's leadership and approach to transparency and governance must engender trust in the company and ensures accountability for their actions.

- Monitoring directors' conflicts of interest
- Defining our governance ambitions in a new Affinity Water Corporate Governance Code
- Aligning Board and Executive remuneration with performance against our purpose and long-term success

Stand-alone regulated company

Affinity Water Objective:

The company must be led by an effective and entrepreneurial Board, which has full responsibility for all aspects of the company's business, and whose role is to promote the long-term sustainable success of the company.

- Reviewing the independence of our NEDs
- Reviewing the division of responsibilities between our Chair and Chief Executive Officer
- Introducing a framework for consulting with our shareholders

Board structure and effectiveness

Affinity Water Objective:

The Board and its Committees must be competent, well-run, and have sufficient independent membership, ensuring they can make high-quality decisions that take account of diverse customer and stakeholder needs.

- Revising Matters Reserved for the Boards and Committee Terms of Reference
- Reviewing Board composition and balance
- Enhancing directors' induction and training programmes
- Evaluating the Board and reviewing its effectiveness and that of its committees

Stakeholder engagement

The Board's direct engagement with stakeholders

Environment Bill

After a long period of campaigning, lobbying and building consensus across the industry, we helped make water efficiency labelling mandatory on water bills.

SOS campaign

Our 'SOS: Save Our Streams' campaign was developed with third-party advocacy at its core, and has seen over 220,000 sign-ups since launch. The campaign has the potential to drive industry-leading Pollution Prevention and Control ('PPC') reductions and lasting behaviour change.

Relevant stakeholders

Relevant stakeholders supported strategic assets such as Sundon Reservoir and Oughton Head.

Engagement with local groups

The company had continued dialogue and collaborated with local chalk stream groups and other relevant stakeholders including CRAG, CABA, the Ver Valley Society, the River Chess Association, St Albans Task and Finish Group. A joint meeting to promote the SOS campaign was also held with Bim Afolami, the MP for Hitchen & Harpenden.

Engagement with communities

Our Strategic Direction Statement was shaped by views of customers and stakeholders.

Engagement with councils

Political stakeholders were made aware of our large capital work schemes and their role in improving the environment. The company also used digital communications and held one-to-one online briefings to highlight works and gather feedback about potential issues and local attitudes.

Speaking with our shareholders

Affinity Water is owned by a consortium of private investors. Our group structure, ownership and financing are outlined on page 184 onwards.

Each of our private investors are represented on our Board. Roxana Tataru and Jaroslava Korpanec (Alternate) are the Non-Executive directors representing Allianz Capital Partners, Tony Roper represents InfraRed Capital Partners and Angela Roshier represents DIF. To ensure that the Board as a whole remains fully focused on the activities of the company and the interests of all its stakeholders, the Board has an established process for consulting 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 as a whole. Affinity Water values the particular expertise that can be brought into consideration through the experience and expertise shareholders bring to these decisions, which are in a large part similar to the matters Affinity Water's senior financiers have control rights over.

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

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

During 2021/22, 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 2022/23
- Engaged with shareholders on the £4.0 million equity injection into the company in March 2021, with a further £1.0 million being discussed in 2021/22, including objectives from the funding and the source of the finance
- Appointment of Stuart Ledger as our Interim CEO
- Conducted an effectiveness review, including responses from shareholder appointed non-executive directors

Following shareholder consultation, the Board's deliberations, decisions, and actions on these matters were considered and taken collectively as a Board, independently of its shareholders.

Corporate governance report
Board leadership and company purpose continued

Listening to our employees

We have an experienced, diverse, and dedicated workforce, which is recognised as a key asset of our business. Our employees operate across a number of sites. In order to reach all our employees (including individuals engaged under contracts of service, agency workers and remote workers), the Board uses a combination of formal and informal engagement methods, which are detailed in the Section 172(1) statement on pages 86 to 97 of this Annual Report.

Our employee engagement programme was principally led and overseen by Trevor Didcock, our Non-Executive Director of Employee Engagement, during the year. Effective two-way communication with our workforce is a key part of our corporate culture, and proved particularly important throughout the Covid-19 pandemic in encouraging our employees to stay engaged and connected with the company.

Employee concerns about job security, working from home successfully and the safeguarding of their health and safety on their return to the office have been reported to and responded to by the senior management team and the Board via our culture forums, the Joint Negotiation and Consultative Committee and director roadshows.

During the lockdown, our intranet was used to provide employees with Government guidelines and the company's response to the pandemic.

3
employee surveys carried out

69%
response rate

Employee engagement process

The Board

Non-Executive Director of Employee Engagement
Trevor Didcock

Employee engagement approach

Board listening channels	Virtual focus groups	All employee surveys	Blogs and written comms	Luminate – whistleblowing initiative
What this channel brings	• Gives qualitative feedback on important issues. • Crowdsource solutions to problems raised in employee surveys.	• Candidates, new joiner and leaver surveys – for insight at key moments of the employee lifecycle. • Regular pulse surveys for quick feedback on progress and hot topics.	• Provides discussions and polls for quick responses. • Provides a company network analysis to help identify connections and silos. • Serves as an ideation platform to take ideas and suggestions into further detail.	• An independent and confidential reporting service available 24 hours a day, 365 days a year • Supports employees to 'shine a light' on issues or concerns that might be incompatible with the standards and values we set ourselves.

Q+A
with Trevor Didcock, our Non-Executive Director of Employee Engagement

Trevor Didcock
Non-Executive Director of Employee Engagement

7
meetings/forums held over the year

11
wellbeing sessions held

31
mental health first aiders appointed to support the health and wellbeing of our employees

Q How do you ensure the employee voice is heard on the Board?

By providing feedback from the EDI committee deliberations where issues including health and wellbeing are discussed. The Board reviews results of surveys, particularly on culture and behaviour. Information is received from a range of sources such as investigating internal control failures, HSE incidents and whistleblowing.

Q How do you share outcomes with the wider employee base?

Outcomes are shared by senior management through team meetings and 1:1s for more local discussion and to generate feedback. In addition, there are culture forums, the company intranet, and the Joint Negotiation and Consultative Committee.

Q For you, what were the key highlights in 2021/22?

Joining the Inclusive Employers organisation to help us understand the inclusion and diversity challenges we face and support our journey to make inclusion an everyday reality. We also embarked on a review of company policies from an EDI perspective to make employees feel valued, supported and respected.

Q What colleague-related areas does the Board want to focus on in the future?

We want to understand more about our EDI performance and how to improve it. In this regard, Inclusive Employers who are experts in root cause analysis will provide data for use to build on our EDI Strategy for 2022. We will also consider the impact of the cost of living increases to our employees health and wellbeing.

Corporate governance report

Board leadership and company purpose continued

Workforce policies and procedures

The Board and Executive Management Team review and approve all key workforce policies and practices. Our policies are published on the company's intranet and are easily accessible to our employees.

Our company induction process covers training on key policies for new employees, and we communicate any subsequent changes that take place.

To make sure that policies are embedded in our business practices, our workforce undertakes mandatory e-learning on a regular basis to keep informed of current company policies.

The Board respects the right of its employees to be members of trade unions. Our Chief Financial Officer meets with employee trade unions at quarterly meetings of the Joint Negotiation and Consultative Committee to consult on workforce policies and practices.

It is important for our workforce to be able to raise any concerns with management and the Board confidentially and anonymously, if desired. As part of our Whistleblowing Policy, an independent and confidential helpline 'Luminate' is available 24 hours a day, 365 days a year via the web or a dedicated phone line. This is an independent and confidential reporting service that has been publicised across the business and supports employees to do the right thing by 'shining a light' on issues or concerns that might be incompatible with the standards and values we set ourselves. During the reporting year, a number of incidents were reported, indicating a culture in which our stakeholders can raise their concerns with confidence.

All incidents were thoroughly investigated by appropriate members of the executive and senior management team, working with external advisors when required, with matters being brought to the attention of the Board as appropriate. While some reported incidents presented an opportunity for enhancing the company's internal controls, the Board remains confident that its Whistleblowing Policy is effective and continues to promote its awareness amongst stakeholders.

As a highly regulated business, the Board is cognisant of human rights issues and upholds a zero-tolerance approach to modern slavery and human trafficking across our business and supply chain.

The Board approves both the Policy and annual statement on Modern Slavery and Human Trafficking.

These documents are adhered to by our employees and suppliers who provide support for major capital programme delivery, operational support as well as services and supplies. Both documents can be found on our website: affinitywater.co.uk/responsibility.

Our procurement team monitor compliance with the Policy in our supply chain and report any breaches to our Chief Financial Officer, who then brings these to the attention of the Board as a whole.

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

By order of the Board

Sunita Kaushal
General Counsel and Company Secretary

12 July 2022

Appointment of legal panel – knowledge and experience

In December 2021, we appointed five law firms to our new Legal Panel to work with the company on a range of important issues in a heavily regulated sector facing a number of challenges including climate change and the increasing pressure on water resources.

The Legal Panel firms: Addleshaw Goddard, Burges Salmon, DLA Piper, Hogan Lovells and Pinsent Masons were appointed following a competitive tendering process. The firms work closely with Affinity Water's in-house legal team, who are able to draw on technology solutions offered by the firms to help it efficiently and transparently manage legal work and fees. They advise Affinity Water on a wide range of sector issues including regulation, the environment, energy, competition, property, employment, and corporate finance.

The appointments will run for three years initially, with an option to extend for up to a further five years.

The Legal Panel give us the knowledge and expertise we need to allow us to improve our decision making as we prepare our business plans for the future. The water industry has to grapple with climate change and other pressing issues, which impact on the environment and water resources particularly in the South East. We are looking forward to building a long-standing trusted relationship with our five legal partners.

Our genes

- Stewards of the local environment
- Helping customers use water better
- Giving customers an exceptional experience

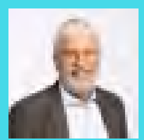
Audit, Risk and Assurance Committee report

Justin Read
Chair of the Audit, Risk and Assurance Committee

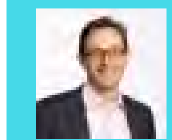
Justin Read
Chair
Attendance 4/4

Mark Horsley
Committee Member
Attendance 4/4

Jara Korpanec
Committee Member
Attendance 2/4



Chris Newsome
Committee Member
Attendance 4/4



Mike Osborne
Committee Member
Joined 1 April 2022

Tony Roper, Committee Member – resigned 31 March 2022. Attendance 4/4

Roxanna Tataru, Committee Member – attendance 2/4 – appointed Jara Korpanec as alternate director with effect 4 January 2022

In addition to the members set out above, the CEO and CFO, Head of Audit, Risk and Compliance, Financial Controller and the external Auditors normally attend, by invitation, all meetings of the Committee. Other members of senior management are also invited to attend, as appropriate.

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.

Dear Stakeholder,

I am pleased to present the report of the Audit, Risk and Assurance Committee. This report details the role of the Committee and the work it has undertaken during the year.

The Audit, Risk and Assurance Committee understands and acknowledges its key role of protecting the interests of shareholders as regards the integrity of financial information published by the company. Additionally, some of the Committee's responsibilities are targeted at the regulated information in the Annual Report and Financial Statements published by the company for the benefit of other stakeholders.

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

The Committee also has responsibility for overseeing the relationship with our external Auditor PricewaterhouseCoopers LLP ('PwC'), including assessment of its ongoing objectivity, and overseeing the assurance of regulatory returns to Ofwat. In performing its duties, the Committee has access to the services of the Head of Internal Audit, the Company Secretary and, if required, external professional advisors.

Our work cannot provide absolute assurance that the company's risk management and internal control systems are operating effectively. Some areas of challenge and need for improvement were identified in the year. These have either been addressed by management or are in the process of being addressed, with oversight from the Committee. Nevertheless, in summary, we are satisfied that the control and compliance culture and processes of the company are strong, 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 2021/22 Annual Report and Financial Statements, taken as a whole, provide:

i. a fair, balanced, and understandable assessment of the company's position; and
ii. the information necessary for shareholders to assess the company's performance, business model and strategy.

The Audit, Risk and Assurance Committee is key to ensuring that the organisation has robust and effective processes relating to financial reporting, internal controls, and risk management. The Committee is also the main oversight body for the internal and external Auditor. The Committee is central to the company's governance structure and ensures the interests of customers, shareholders and other stakeholders are protected, and that responsible business practices are adhered to. The Committee's terms of reference (see affinitywater.co.uk/governance-assurance) are structured to ensure it achieves compliance with governance best practice and are reviewed annually to ensure the effectiveness of the Committee.

Responsibilities of the committee

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

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

The significant matters considered by the Committee in relation to the 2021/22 financial statements were consistent with those identified by the external Auditor in its report on pages 198 to 205. The Committee has an extensive agenda of business, which it deals with in conjunction with senior management, the external Auditor, and the Internal Audit function. During the year, the Committee met four times. As part of these meetings, the Committee met with internal and external Auditors without management being present.

The table below presents a summary of business considered during 2021/22.

External Auditor	Recommended to the Board the reappointment of PwC as external Auditor. Reviewed and agreed the scope of the audit work to be undertaken by PwC. Agreed the fees to be paid to PwC for its review of the September 2021 half-year report and its audit of the March 2022 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, including a programme of compliance audit work. 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.
Financial and other reporting	Reviewed the September 2021 half-year financial results and the March 2022 Annual Report and Financial Statements. Reviewed the March 2022 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.

Audit, Risk and Assurance Committee report continued

<table>
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<td>General</td>
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Reviewed its terms of reference.
Reviewed and provided advice to the Board on the effectiveness of the company's risk management and internal control systems and associated disclosures made in the Annual Report and Financial Statements.
Reviewed compliance certificates and bond investor reports required under the company's debt facilities.
Received presentations across the year on:

Tax matters;
The company's insurance programme and renewal;
2022/23 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 2021/22;
The renewal 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 Markets Oversight Committee, an internal working group overseeing compliance with competition law;
New corporate, governance, statutory and regulatory reporting requirements for 2021/22;
The company's whistleblowing arrangements and any associated investigations that are required. Concerns were raised regarding management's use of consultants in the business. These were investigated by the Committee and an action plan to address agreed. All significant whistleblowing matters are subsequently reported to the Board via updates from the Committee;
The status of the company's information security by reference to the ISO27001 standard;
Compliance with Security and Emergency Measures Direction 1998;
The impact of the Department for Business, Energy, and Industrial Strategy proposals on 'Restoring trust in audit and corporate governance' on the company; and
The requirements of Task Force on Climate-related Financial Disclosures ('TCFD').

Approved the company's non-audit fee policy.
</td>
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Fair, balanced, and understandable

The Committee reviewed the 2021/22 Annual Report and Financial Statements to ensure that it is fair, balanced and understandable and provides sufficient information to enable stakeholders to assess the company's position, performance, business model and strategy.

Risk management and internal control

The Audit, Risk and Assurance Committee advises the Board on the company's internal control systems. The Board is responsible for reviewing the effectiveness of these control systems, taking the advice of the Committee in areas including financial, operational and compliance controls and risk management.

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

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

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

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

- A comprehensive suite of internal control procedures across both operational and financial matters, supported by segregation of duty matrices and detailed delegated levels of authority;
- An Internal Audit function, the head of which reports to the Audit, Risk and Assurance Committee, together with other internal control and assurance resources, which monitor compliance with laws, regulations, policies, and procedures;
- The setting and monitoring of annual budgets at a detailed level supported by a five-year forecast;
- Specialist planning teams retained within the organisation to work on major projects, such as business planning activities, supported by external specialists where appropriate; and
- The use of appropriate external assurance review, both financial and operational.

We have an established framework for identifying, evaluating, and managing the principal and emerging risks the company faces, including those that would threaten its business model, future performance, solvency or liquidity and we regularly review these. This framework has been in place for the year under review and up to the date of approval of this Annual Report and Financial Statements. Refer to page 98 of the Strategic Report for further information.

We follow the principles of the 'three lines of defence' model, as promoted by the Institute of Internal Auditors and other professional and commercial organisations, as the basis of the company's assurance process.

Assurance is achieved as follows:

First line, Management control: Controls are exercised by operational managers who own and manage risks day to day. Controls are designed into systems and processes under the guidance of operational management.

Second line, Risk management and peer review: This comprises risk management and compliance functions established by management to help build and/or monitor the first line of defence controls, ensuring that they are properly designed, in place and operating as intended.

Third line, Internal Audit: Internal Audit provides the Board and senior management with assurance based on a high level of independence and objectivity within the organisation. Internal Audit provides assurance, on a test basis, as to the effectiveness of governance, risk management, and internal controls operated as part of the first and second lines of defence.

Internal Audit prepares an annual plan of reviews, considering risks identified on risk registers, and carries out a number of audits each year. Not all areas are reviewed every year. The Internal Audit plan is approved by the Audit, Risk and Assurance Committee, which also monitors its delivery over the course of the financial and regulatory year.

External Assurance

We also make use of third-party organisations to provide the Board with external assurance that information prepared by management is accurate and compliant. This particularly applies to major items such as the Annual Report and Financial Statements, the Annual Performance Report and the tariff setting process. The main parties used to provide this assurance are PwC, who provide assurance on financial data, and Atkins Limited (our 'Reporter'), who provide assurance on engineering and technical data. These contracts are periodically re-tendered, and providers may change.

Compliance

The Compliance Obligations Register was originally compiled to provide the business with a register of all the legal obligations that apply to our operations and a means against which employees can certify compliance.

As we move forward with our new compliance programme, the way we measure risk, ensure compliance, and ultimately deliver assurance needs refining in order to be more focused on the company's significant, higher risk legal obligations. Accordingly, a new Legal Obligations Register that applies a risk-based approach, primarily focusing on our key obligations as dictated in our Instruments of Appointment and licence conditions (as set out in the Water Act 1989 and the Water Industry Act 1991) will be launched. The existing Compliance Obligations Register will be reviewed, examining each legal obligation, and establishing the level of risk associated with non-compliance. Those risks that are identified as significant will also be added to the new Legal Obligations Register. This approach will provide us with a more efficient and concentrated format that is easier to digest and ensures we remain focused on those risks deemed critical to our operations.

Audit, Risk and Assurance Committee report continued

Legal obligations considered to be lower risk will be subject of more local risk registers, assigned to the respective directorates and governed through the company's risk management process. Governance of these will, as with the higher risk obligations, be subject of regular audit, risk, and compliance checks, but proportionate to the level of risk associated with non-compliance.

Our compliance returns process will continue to run twice yearly, with Directors and Heads of Directorates asked to provide evidence of controls and compliance to those legal obligations relevant to their operational responsibilities. This process will be supported and certified through annual audit programmes, ongoing risk management and compliance checks, to ensure that we continue to maintain a high degree of focus on this area.

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 and the implications of Covid-19 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 112.

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 measured income accrual and recognition of non-household revenues during the Covid-19 pandemic 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 the assumptions with respect to collectability of debt during the Covid-19 pandemic, as well as looking ahead regarding 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 policy and applicable accounting standards.
Defined benefit pension assumptions	The Committee reviewed the assumptions used in calculating the defined benefit pension surplus.
Adoption of the going concern basis in the financial statements	The Committee reviewed the assumptions underpinning the directors' decision to continue to adopt the going concern basis in the financial statements, including the expectation that loan covenants would continue to be met for a period of not less than 12 months from the date of signing the financial statements. The Committee reviewed actual and budgeted financial results, forward looking forecasts including associated assumptions, the company's ability to generate future positive operative cash flows and the company's access to financing arrangements.
Viability statement	The Committee considered and provided input into the determination of which of the company's principal risks and combinations thereof might have an impact on the company's financial viability and reviewed the results of management's stress testing of the company's base cash flow forecasts.

We challenged management on the following areas described below:

Area of challenge	Outcome of this challenge
The change in accounting policy resulting from the IFRS Interpretations Committee agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement ratified by the International Accounting Standards Board in April 2021.	A restatement of the income statement and statement of financial position in the prior year and additional associated disclosure notes were included in the interim and year-end financial statements.
Arrangements for ensuring legal and regulatory compliance across the business.	A third-party review commenced with the objective of developing a new Legal Obligations Register to replace the existing Compliance Obligations Register. Progress on updating the Registers was reported to the Committee.
Scope of the internal audit plan for 2021/22 and 2022/23 and proposed review areas, including an increased focus on environmental areas; business processes that are particularly important in delivering the company's strategic outcomes and priorities, and AMP7 performance commitments; and the resourcing available to deliver on the plan.	New areas were proposed and discussed, with updates provided to the Committee throughout the year. The Committee endorsed the internal audit plan.
Key risks were reviewed in detail and challenged as part of deep dive exercises, including the company approach to emerging risks.	Progress made in developing the risk appetite statements and consultations were held with relevant stakeholders on their risk appetite.
Disclosures in the 2021/22 Annual Report following a further benchmarking review of competitor reports, as well as extracting the Annual Performance Report into a standalone document.	Benchmarking undertaken and disclosures included in the 2021/22 report. Development of a standalone Annual Performance Report.

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

Area of challenge	Outcome of this challenge
• Accuracy of the measured income accrual • Adequacy of the loss allowance of trade receivables • Going concern basis, including viability statement • Assessment of cost capitalisation • Assessment of pension assumptions • Legal claims	No material issues were noted during the interim review or year-end audit. See the audit opinion on page 198 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. The company intends to put the external audit contract out to tender at least once every ten years, as stipulated in the Audit, Risk and Assurance Committee's terms of reference, to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent external Auditor with those of other audit firms.

Having completed five years in the role of senior statutory audit partner, Owen Mackney rotated off the audit during the year, and Simon Bailey has led the audit for the year ended 31 March 2022 as the new audit partner.

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

- PwC's plan for the current year, noting the role of the senior statutory audit partner signing the audit report, who, in accordance with professional rules, has not held office for more than five years, and any changes in key audit staff;
- The arrangements for day-to-day management of the audit relationship; and
- PwC's annual independence letter.

A key factor that may impair PwC's independence is the value of non-audit services provided by them. The company has a policy for the provision of non-audit services, under which all proposals for such work are subject to pre-approved limits. Any non-audit service that exceeds these thresholds requires approval from the Audit, Risk and Assurance Committee. Auditors remuneration was £457,000 in the year to 31 March 2022 (2021: £421,000) 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 happy that PwC were best placed to provide the services. See note 2.3 on page 218 for a breakdown of fees in the current and prior year. We also incurred expenditure of £6,000 with PwC on other non-audit services in the current year primarily relating to training and access to technical materials, on a consistent basis with the prior year.

Audit, Risk and Assurance Committee report continued

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:

- Provided a non-audit service in delivering a technical accounting session for the company's finance team. PwC was engaged to provide this service as it was recognised as having expertise in this area; and
- 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;
- The robustness and perceptiveness of its handling of key accounting and audit judgements; and
- The content of its reporting on internal control.

Based on the above review, we are recommending to the Board that PwC be reappointed for the year ending 31 March 2023. 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.

Plans and objectives for 2022/23

During 2022/23, the Committee plans to achieve the following:

- Ensure agreed actions to address concerns raised from whistleblowing incidents are embedded into the business;
- Undertake training deep dive sessions on selected topics;
- Review the action plans and timetable for the 2022/23 statutory and regulatory financial statements, including going concern, viability, narrative disclosures and evolving AMP7 reporting requirements;
- Review the external audit function;
- Monitor progress made against the 2022/23 internal audit plan;
- Review a number of internal policies including whistleblowing, code of conduct, tax, and treasury;
- Review the company's operational and regulatory compliance obligations following work undertaken by a third-party law firm;
- Undertake an information security review;
- Consider the 2022/23 reporting requirements regarding the Task Force on Climate-related Financial Disclosures ('TCFD'); and
- Continue to consider the emerging impact of the Department for Business, Energy, and Industrial Strategy proposals on 'Restoring trust in audit and corporate governance' on the company.

Overview

As a result of the Committee's work during the year, we concluded that we acted in accordance with our terms of reference and ensured the independence and objectivity of PwC. I will be available at the AGM to answer any questions about the activities of the Committee.

Approval

On behalf of the Audit, Risk and Assurance Committee

Justin Read
Chair of the Audit, Risk and Assurance Committee

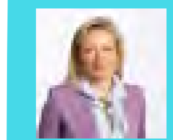
12 July 2022

Nomination
Committee report

Ian Tyler
Chair of the Nomination Committee

Ian Tyler
Chair
Attendance 3/3

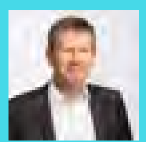
Ann Bishop
Committee Member
Attendance 3/3



Jaroslava Korpanec
Committee Member
Attendance 1/3

Justin Read
Committee Member
Attendance 3/3

Mike Osborne
Committee Member
Joined 1 April 2022



Trevor Didcock
Committee Member
Joined 1 April 2022

Susan Hooper, Committee Member – resigned 31 March 2022.

Tony Roper, Committee Member – resigned 31 March 2022. Attendance 3/3

Roxanna Tataru, Committee Member – attendance 2/3 – appointed Jara Korpanec as alternate director with effect 4 January 2022.

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.

Dear Stakeholder,

I am pleased to introduce the Nomination Committee Report, detailing important work of the committee, our approach to director recruitment and training and development of the Board during the year ended 31 March 2022.

The Committee's responsibilities include:

Assessing the performance of the Board

The Committee reviews 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 particular regard to their key skills and expertise.

Recommending appointments to the Board

The Committee makes recommendations concerning the membership of Board Committees and the appointment of the Senior Independent Director ('SID'), who is also 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 People Directorate and takes an active role in setting, monitoring, and meeting diversity objectives and strategies for the company and oversees the 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.

Ian Tyler
Chair

12 July 2022

The Committee's activities in the year

Assessing the performance of the Board	• Reviewed the revised Board's Skills Matrix, concluding 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 considered its compliance to the UK Governance Code, Ofwat's Board Leadership, Transparency, and Governance Principles [BLTG Principles] and AWL's own Governance Code; • Reviewed other Board member external appointments to ensure the Board had adequate time available for their roles; and • Undertook an external Board Effectiveness Review.
Recommending appointments to the Board	• Had oversight of the process for the appointment of an Interim CEO; and • Led the process for the appointment of a new CEO and engaging Russel Reynolds Associates in the recruitment process.
Overseeing Board and company diversity	• Reviewed and approved the Equality, Diversity and Inclusion policy, a policy that strives to promote equal opportunity to everyone, creating an open and inclusive workforce where people feel valued; • Considered and advised on how to advertise roles to appeal to different communities and how to positively influence diversity and gender targets, including how to reduce the gender pay gap within the company. The Nomination Committee worked with the Equality, Diversity, and Inclusion Committee to: i. Conduct a root cause analysis to help us understand what is contributing to our gender pay gap; ii. Take positive action planning on career succession of women into mid and senior management roles; iii. Understand our approach to attract more women into the operational areas of the business; and iv. Understand how to build on our inclusive and supportive culture. • Received presentations from members of the Equality, Diversity, and Inclusion Committee, engaging with the workforce and understanding the work the Equality, Diversity and Inclusion Committee had undertaken during the year, including World Religion Week, International Women's Day, Black History Month, and International Men's Day.
Ensuring succession planning	• Reviewed the Talent Development Brief for the next two years and will focus on: i. CareerPath Framework Model for Talent; ii. Identification of Critical Roles and Succession Planning; iii. Leadership Assessment and development; and iv. Strategic Workforce Planning collaborative work with EUSkills. • Commenced developing a behavioural competency framework for the company.

Nomination Committee report continued

Appointments to the Board

Appointments to the Board are subject to a formal, rigorous, and transparent procedure and the Board and Nomination Committee maintain an effective succession plan for Board and senior management roles. Appointments and succession plans are based on merit and objective criteria, which protect against discrimination for those with protected characteristics within the meaning of the Equalities Act 2010.

The Board promotes diversity of gender, social and ethnic backgrounds, and of cognitive and personal strengths across the whole employee population and has an approved Diversity and Inclusion Commitment.

Appointment of a new CEO

Following Pauline Walsh's resignation with effect from 8 September 2021, the Board appointed Stuart Ledger as Interim CEO. A key focus for the Committee since his appointment has been the search and appointment process for a new permanent CEO. The Committee engaged the services of independent search consultants Russell Reynolds Associates ('RRA') to evaluate, screen and identify suitable candidates. As at 12 July 2022, the search process for a new CEO is ongoing.

The Committee also had an oversight role in the recruitment and appointment of Mike Thomas on a one-year fixed-term contract as an Interim CFO on the Executive Management Team. Mike is directly employed by the company and not as an Executive Board Director.

Induction

Non-executive directors (including the Chair) who have been nominated for appointment attend a pre-appointment meeting with Ofwat. This meeting allows nominated directors to get an understanding of Ofwat's expectations for the role of non-executive directors of a regulated company and any other issues, which Ofwat considers appropriate. It provides an opportunity to ask Ofwat any questions ahead of their appointment.

Induction process

On appointment to the Board, directors follow a comprehensive induction process which includes briefings on:

- The company's business model, key operations, processes, and sites;
- Its risk profile and approaches to management and assurance;
- Its strategy, business plans, and performance;
- Its governance and regulatory framework;
- Their duties as directors, including details of the annual Board (and relevant Board Committees) planner, effectiveness reviews and action plans; and
- Visits to water treatment works, and time spent with frontline employees.

Training and continuing professional development

Our Board members receive updates on relevant issues, including legislative, regulatory, and reporting matters to help improve their understanding and knowledge of the water industry and its regulatory environment.

As part of the individual directors' element of the Board evaluation process, directors are asked to identify any skills or knowledge gaps they would like to address. During the year, a team from Marsh Advisory was invited to provide training to Board members on the Task Force on Climate-related Financial Disclosures ('TCFD'), in particular, its impact on UK companies and the mandatory reporting requirements. The training session covered:

1. Quantifying physical and transition risk
   - Undertaking a TCFD Gap Analysis
   - TCFD Physical Risk Quantification
   - TCFD Transition Risk Quantification
2. Building climate capability and future resilience roadmap
   - TCFD Support
   - TCFD Resilience Roadmaps and KPIs
   - TCFD Training and Upskilling

Non-executive directors also participate in industry events, including regular Ofwat events for non-executive directors, and are conscious of the need to keep themselves properly briefed and informed to deepen their understanding of the business. In the future, Board members will participate in unconscious bias training and join the Executive Management Team on cultural change initiatives and training sessions. The Nomination Committee are responsible for overseeing the training and continuing professional development of Board members.

Equality, Diversity & Inclusion training

During 2022/23, the Board have committed to continuing to build their knowledge and understanding around equality, diversity and inclusion and help them take steps to reduce the likelihood that bias will impact their decisions.

Board evaluation

A full external Board evaluation was undertaken by Independent Board Evaluation and details are included in the Governance Report on page 138. The Nomination Committee also reviewed and confirmed the ongoing independence of the Independent Non-Executive Directors.

Reappointment of directors

The company's Articles include provisions for the re-election of all directors at AGMs and includes providing justification as to why directors should be re-elected.

The terms of appointment for our directors are available on our website: affinitywater.co.uk/governance-assurance

In line with Ofwat's expectations regarding succession planning and the Code requirement that Board appointments should be made on merit against objective criteria, the Committee considers the capabilities and skills needed on the Board to enhance its ability to support and challenge the Executive.

Our Skills Matrix reflect that the Board has a good mix of:

- Asset knowledge and experience, operational and field experience
- In depth understanding of regulatory approaches from Ofwat
- Customer engagement and retail experience
- Innovation
- Finance and risk and experience of audit

Diversity is crucial for the long-term success of the business, to better reflect the communities we serve

Commitment to diversity

Diversity is crucial for the long-term success of the business and the company is striving to create diverse teams across the business to better reflect the communities we serve.

The Committee's terms of reference mandate the committee to take an active role in setting and meeting diversity objectives and strategies for the Company as a whole, and in monitoring the impact of diversity initiatives to increase the diversity of the Board by setting targets and establishing initiatives in the business that lack diversity. To create clear objectives and targets, the Committee, therefore, maintains focus in this area to ensure that progress is made regarding ethnicity, gender, disability, and age balance within the organisation. The Committee works closely with the Equality, Diversity, and Inclusion Committee to further these objectives.

Our diversity vision

We are committed to building a more inclusive culture where every member of our workforce can bring their true selves to work, confident that they will be valued. Our ambition is to enable our employees to thrive and to reach their full potential and enhance the culture of our business. We promote:

- Equality – for there to be a zero pay-gap when we look across our company and the protected characteristics
- Diversity – to represent our communities in terms of the demographics of our employees
- Inclusion – for all employees to feel valued, supported and respected at work

Over the year, the company celebrated Black History Month, a yearly event that is intended to recognise the contribution and achievements of those with African or Caribbean heritage. As part of these celebrations, the company held a 'Black Voices at Affinity Water' webinar, which covered a range of discussion topics from the George Floyd murder in the USA, to experiences of racial discrimination, unconscious bias, how we need to call people 'in' through education, how to have courageous conversations as well as improve representation in the workplace.

The Equality, Diversity and Inclusion Committee appointed a new Chair, Phil Barnaby whose key objectives are to align the company's EDI ambitions with stakeholders expectations that ensure fairness and equal opportunities in our organisations and the communities that we serve. The measure of success will be implemented via an 'Impact Model' under the headings of Imagine, Measure, Plan, Act, Communicate and Track.

The Equality, Diversity, and Inclusion Committee engaged in various activities and initiatives during the year, which included:

- Launching the ONE Network; a support network for Black, Asian, and Minority Ethnic ('BAME') employees
- Launching the 'Let's Talk Men's Health' Network to tackle critical issues affecting men's mental health and wellbeing
- Launching the Women's Network to support and empower female employees
- Launching the LGBT+ network
- Launching the EUSkills Strategic Workforce Plan
- Launching a new employee recruitment system
- Approving a new EDI policy

The company continues to build an inclusive culture, ensure equality for all and to increase the diversity within our workforce. We have recently recruited and experienced Head of Culture and EDI who will develop and lead our approach in this area. They will focus on developing our culture, supporting wellbeing, building knowledge within our business, and putting the structures, tools and processes in place to enable us to attract, retain and develop a more diverse workforce.

Nomination Committee report continued

Diversity is crucial for the long-term success of the business, to better reflect the communities we serve

Board diversity policy

Policy objectives	Implementation	Progress against objectives
Work within a framework that adds value to the culture we want to achieve at Affinity Water	• Striving towards a culture that is diverse and inclusive and that recognises the benefits and opportunities of having a diverse community of employees. • Promoting respect and encouraging good relations within and between all our people. • Not tolerating discrimination, harassment, bullying or victimisation of employees, and taking practical steps to address inequality and discrimination.	Launched our employee networks and appointed a new EDI Committee Chair. Focused on wellbeing support and mental health support including training for line managers and the introduction of mental health first aiders.
Set our diversity and inclusion objectives and ensure that these are always relevant, appropriate, and timely and that they align with Affinity Water's overall goals and commitments	• Focusing on equality, diversity and inclusion to build our culture and reputation as a place that attracts, develops, retains and fully engages diverse talent. • Creating an environment where we have effective and skilled leaders taking individual responsibility to help deliver and drive our ambition in relation to equality, diversity, and inclusion.	Developed new EDI dashboard. Delivered training and webinars across a range of EDI subjects.
Recognise and celebrate our existing diversity at Affinity Water and find ways to develop this further	• Prioritising objectives for diversity strands where there is notable under-representation, such as BAME at senior levels, and disability across all grade profiles, while remaining committed to tackling under-representation across all other areas such as age, gender, identity and expression, faith and belief and socio-economic background.	Supported kickstart placements to support young people gain employment and skills. Celebrated pride month, International Women's Day and International Men's Day. Launched our employee networks and appointed a new EDI Committee Chair.
Continually improve our understanding and re-education of the need for diversity and inclusion within everything we do, embedding best practice throughout our people, policies, and processes.	• Exploring ways to increase representation of under-represented groups across the company, and support recruitment practices to help ensure our local community can access opportunities here. • Ensuring the progress we make that can be evidenced matches the scale, ambition and pace of the change required by our regulators.	Appointed Head of Culture and EDI to develop and drive agenda. Implemented anonymised applications for recruitment. Launched hiring manager training including unconscious bias training. Launched new menopause policy.

Approval

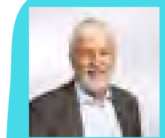
On behalf of the Nomination Committee

Ian Tyler
Chair of the Nomination Committee

12 July 2022

SHEDWQ Committee report

Chris Newsome
Chair of the SHEDWQ Committee



Chris Newsome
Chair
Attendance 4/4

Trevor Didcock
Committee Member
Attendance 4/4

Stuart Ledger
Committee Member
Attendance 3/4

Angela Roshier
Committee Member
Attendance 4/4

Ian Tyler
Committee Member
Attendance 4/4

Mike Osborne
Committee Member
Joined 1 April 2022

Tony Roper, Committee Member, Attendance 3/4 - resigned 31 March 2022.

The Committee is required to comprise of at least four members, at least three of whom shall be independent non-executive directors. The Committee was compliant with these terms throughout the year.

Dear Stakeholder,

As Chair of the SHEDWQ Committee, I am pleased to introduce this report, detailing the work of the Committee in the year.

Responsibilities of the committee

The committee reviews and monitors health and safety, the environment, drinking water quality and personal security matters (for example lone working) arising from the company's activities and operations, including monitoring performance against targets. It also makes recommendations to the Board on the strategic direction for effective safety, health, drinking water quality and environment management, and to communicate, promote and champion safety, health, drinking water quality and environmental issues.

Another responsibility relates to keeping under review the adequacy of the framework of safety, health and environment policies and procedures within the Company (including training and competency assessment), and compliance with relevant health, safety, drinking water quality and environmental legislation.

Committee activities during the year

Safety

Over the year, we recognised that we needed to bring even more focus and strength to our leadership of safety, making organisational changes to report safety directly to the CEO and recruiting a senior very experienced Head of Health & Safety who will join us in 2022/23 and three experienced Health & Safety Business Partners to really embed a culture of safe working with the leaders in the business.
To support the development of our strategy and plan we commissioned an in-depth audit by JMJ to understand how we are performing against external best practice and where our areas of focus should be. As a result, throughout the year we have overseen the development of the annual safety roadmap, defined new stretching performance measures and reviewed progress against them. The performance measures were revised to set a balance between lead and lag safety measures with a refreshed intent for management to focus on the lead measures.

We have particularly focused on the development of policies and processes and more recently on development of the culture around safety, with this being the key focus as we move forwards. Furthermore, a review was undertaken of the CDM regulations.

In the year, the revised Health and Safety Policy was implemented. The Committee also completed a reviews and captured learnings from previous serious safety events at other companies.

Health and Wellbeing

During the year, we established a Wellbeing Committee consisting of members from across the business, seeking to address four key areas to support our employees: financial wellbeing, mental health, physical health and emotional resilience. Over the course of the year, we appointed and trained 31 mental health first aiders, put in place "managing mental health" training for all line managers, reinvigorated our Employee Assistance Programme ('EAP') and created a wealth of tools and resources to support line managers and employees on our wellbeing portal.

We have held monthly webinars on a range of health and wellbeing matters from breast and prostate cancer awareness to managing finances, mental health awareness and eating healthily. We have partnered with our occupational health provider to develop a physical wellbeing programme, which includes a suite of webinars on goal setting and healthy eating. We offer comprehensive medical health checks for our colleagues to help to identify potential health issues early enabling early treatment and offer flu vaccines to employees to keep them well in the flu season. We also offer a range of medical and dental health cash plans as part of our benefits offering.

Business Continuity

An effective business continuity programme supports the strategic objectives of our company and pro-actively builds the capability to continue business operations in the event of disruption. The company, with oversight from the Committee, managed successfully through the continuing Covid-19 pandemic. A post pandemic review was completed and learnings captured.

The Committee reviewed the company's Business Continuity Plans status and the work planned. A deep dive review was completed in the year on alternative water supplies in an incident, and Committee members commended management's progress in this area and the work that is continuing to develop plans for a large scale enduring incident or an issue impacting on a national scale, such as the beast from the East weather event in March 2018.

Water Quality

The Committee has had discussions on how water quality risks are aligned across the business in the Drinking Water Safety Plans ('DWSP') and the Asset Risk Management ('ARM') system during the year. We noted that an audit of the DWSP process showed that the residual risk posed to AWL's supply systems from hazards identified by the Drinking Water Inspectorate ('DWI') was low in comparison to peers in the water industry and challenged management to demonstrate that all the risks had been captured.

The Committee receives reports on all water quality incidents. We undertake regular reviews of the company's Compliance Risk Indicator score. This year, the Committee commended the work that has been done to date on the DMA flushing programme. The focus is on reducing iron and manganese deposits and prioritising zones that have high discoloration reports. We are pleased to report that the flushing work has resulted in improved aesthetics. The Committee has also overseen the reservoir and repair plan, which along with the other water quality improvement plans has resulted in a strong performance on water quality in the year.

Following an incident at Batchworth WTW, which, along with Walton WTW, the Committee highlighted the need to strengthen our quality processes and ensure that competency training is regularly undertaken.

An update on the company's current and planned capabilities to provide alternative water to customers in the event of an unplanned and prolonged loss of water supply was considered. Noting the company's in-house capabilities to provide alternative water in the event of loss of supply, the Committee challenged management to put in place a resilient plan that lowered risk at points of failure.

Following the issues relating to per and polyfluorinated substances ('PFAS') reported by DWI at Cambridge water, the Committee asked for a review of Affinity Water's exposure to such issues. The company is not at risk regarding the on-going interest around the presence of PFAS in drinking water. We are in regular contact with other companies through Water UK and the DWI on this issue.

Environment

A review of the net zero strategy is underway with the Climate Change Adaptation Report submitted to Defra in December 2021. Natural capital assessment has been delivered in regional planning and pilots developed for catchment and river restoration projects. Our Water Resources Management Plan ('WRMP') remains on track for draft submission to Defra in October 2022. Work to identify risks and issues for development of PR24 WINEP is underway and several projects have reached implementation phase on sustainability reductions.

As part of our net zero 2030 trajectory to reduce our carbon footprint, two solar sites have gone live. Carbon Architecture is undertaking work to evaluate and provide support to refine the company's current net zero plan, data capture and reporting processes, including embedded emissions.

The Committee reviewed the metrics associated with Environmental Compliance. The company has continued to progress on its environmental commitments including river restorations and the work it has completed with farmers to reduce chemical usage. The Save Our Streams campaign was launched in the year with a focus on reducing water consumption and, therefore, the need to abstract less water from ground water sources, resulting in more water flowing into streams in the local environment.

Governance

The Committee reviewed its Terms of Reference and agreed that the CEO be included on the membership quorate list.

Conclusion

The company has made progress in Safety, Health and Wellbeing, Water Quality and the Environment, which has been overseen by the Committee. Safety has been a significant area of focus for the committee reviewing the metrics, revising these and rebalancing these across lead and lagging measures. The Committee has also concentrated on safety and the areas of leadership, culture and learning from events have been the main focus. The establishment of the Wellbeing Committee is expected to support further progress in this area. The plans on net zero are being progressed with further development underway. Our first solar generation went live in the year with more sites planned for the year ahead. Water Quality has seen continued improvement across all measures, with a focus on reducing the risk in this area.

Approval

On behalf of the SHEDWQ Committee

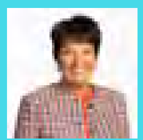
Chris Newsome
Chair of the SHEDWQ Committee

12 July 2022

Remuneration report

Trevor Didcock
Chair of the Remuneration Committee

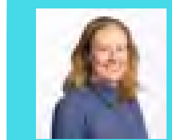
Trevor Didcock
Chair
Attendance 6/6



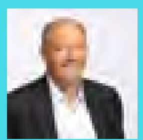
Ann Bishop
Committee Member
Attendance 6/6

Mark Horsley
Committee Member
Attendance 6/6

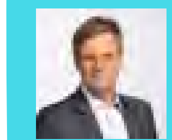
Jara Korpanec
Committee Member
Attendance 2/6



Angela Roshier
Committee Member
Attendance 5/6



Ian Tyler
Committee Member
Attendance 6/6



Justin Read
Committee Member
Joined 24 May 2022

Susan Hooper, acted as Chair until resignation on 31 March 2022.

Roxanna Tataru, Committee member – Attendance 4/6 – appointed Jara Korpanec as alternate director with effect 4 January 2022.

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.

Dear Stakeholder,

I am pleased to present the report on directors' remuneration, which sets out the remuneration paid to the directors of the company for the year ended 31 March 2022.

Our remuneration policy aligns to our overall vision, purpose and strategy by aligning our executive pay to stretching performance across customer, environmental, operational, people and financial measures as well as the development and delivery of our business and transformation plans. We continue to set stretching targets across all our incentives, ensuring that we are incentivising our executives to deliver truly stretching performance for customers, stakeholders and shareholders.

We have this year reviewed and restated our position of aligning basic salary to the market median, having undertaken a benchmarking review of salary and total package with the support of Innecto Reward Consulting.

The challenging nature of our incentive targets and our business plan has been evidenced this year by the fact that payouts under the incentive schemes are lower, with only 11.4% out of a maximum of 80% being achieved under the financial and customer elements of the annual bonus. As our performance continues to improve, as it has done over recent months, since we enacted changes in the business, then we would expect this level of payout to increase accordingly. This demonstrates the strong link that we have between incentives and stretching performance for customers.

Over the course of the year, we have built on this further, making changes to our annual bonus and Long Term Incentive Plan for 2022/23 to ensure that the metrics are aligned to the expectations set by Ofwat of a minimum of 60% of incentives being aligned to stretching customer outcomes. We have ensured that our targets, particularly in the LTIP, are focused on the long-term and also 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.

Our approach to remuneration in 2021/22

Customers, regulators, and stakeholders rightly expect that the levels of remuneration received by executive directors and senior managers is linked to the standards of performance experienced by customers. These expectations were reinforced by the recent letter from Ofwat's CEO David Black.

The annual bonus targets for 2021/22 were focused on key financial and operational targets in line with the business plan, namely cash generated from operations, water quality, leakage, C-MeX, interruptions to supply, properties at risk of low pressure, per capita consumption, and safety. These targets applied to executive directors, the Executive Management Team, and senior managers. A subset of them also applied to the company-wide bonus scheme, in which all employees participate, ensuring everyone in the business is focused on delivering in these areas, which are of key importance to customers and other stakeholders. Performance in the year was challenging in a number of areas as we work to meet these stretching targets and as a result only the targets for water quality and interruptions to supply were achieved this year. The Remuneration Committee determined the level of bonus awarded in relation to personal performance for executives taking in to account performance objectives set at the start of the year, behaviours in line with the company principles and the individual's overall performance.

The long-term incentive plan for 2021/22, in which the executive directors and members of the Executive Management Team participate, contained the targets set out above along with D-MeX, mains bursts, vulnerable customers, environmental innovation and culture. The purpose of the LTIP is to incentivise executive directors and Executive Management Team to meet operational, financial, and strategic targets, including performance commitments over a three-year period. See pages 172 and 173 for details of the LTIP.

Implementation of the directors' remuneration policy during 2021/22

Our Remuneration Policy strives to ensure that the management team is rewarded appropriately for delivering against Affinity's strategic priorities and delivers significant benefits for all stakeholders. We continuously review our Remuneration Policy and make changes to the remuneration structure and its implementation where necessary in order to respond to regulatory and shareholder feedback; improve alignment of executive and stakeholder interests; focus on our pay for performance philosophy; and ensure compliance with market best practice.

A benchmark review of pay was completed by Innecto Reward Consulting, in line with the remuneration policy for executive directors and members of the Executive Management Team. The review considered base pay and incentives and also considered the alignment of executive directors' pension contributions with the general workforce. The executive directors and all new members of the Executive Management Team have their pension contributions capped at 12% in line with the wider workforce. There are two members of the Executive Management Team who were employed prior to the policy being introduced who continue to receive higher contributions. The Committee is satisfied that the total remuneration received by executive directors in 2021/22 appropriately reflects the company's performance over the year, is in line with policy and is consistent with Ofwat's expectations for performance-related executive pay.

Executive director changes

Pauline Walsh, former CEO left the Affinity Water Limited Board on 8 September 2021 and left the company on 30 November 2021 under mutually agreed terms of exit. The payments made to Pauline under the terms of her exit are set out on page 180. Stuart Ledger was appointed Interim CEO on 8 September 2021 on terms and conditions consistent with the remuneration policy. He retained his current terms and conditions and received an acting up allowance and additional bonus opportunity to reflect the increased responsibilities of the CEO role.

Agenda for 2022/23

For 2022/23 we are making some adjustments to our long-term incentive plan and annual bonus structures to ensure that they have increased focus on customer-related metrics in line with the guidance from Ofwat that there should be a minimum of 60% based on stretching customer outcomes and that there is an underpin and malus and clawback provisions clearly articulated. In the case of the LTIP, we have also ensured that we are incentivising longer-term performance in line with our 'Journey to 25' ambitions to deliver the top eight performance commitments this AMP, develop a high-quality PR24 plan and have delivered our transformation to enter the next AMP ready to deliver performance in that AMP. We anticipate further changes to the structure of our LTIP as we move through the remainder of the AMP to ensure that we can continue to incentivise stretching performance for customers.

Trevor Didcock
Chair of the Remuneration Committee

12 July 2022

Q+A with Trevor Didcock, Chair of the Remuneration Committee

Q How is the company aligning incentives with Ofwat's guidance that 60% of short and long-term incentives are measured against customer outcomes?

For 2022/23 we have introduced some new performance metrics and rebalanced the weightings of the various metrics to align with Ofwat's guidance around 60% of measures being linked to customer outcomes.

Q Has Affinity Water considered incorporating Environmental, Social and Governance ('ESG') metrics into the executive incentive plans?

For 2022/23 we have incorporated additional ESG metrics in to our long-term incentive plan. We have included additional metrics around river restorations, net zero and reduced abstraction as environmental factors, employee engagement results, which include specific question sets on wellbeing and EDI as social factors and metrics around the development and delivery of our PR24 plan on top of our existing performance commitment and safety metrics, which themselves relate to a number of environmental and social factors.

Q How does the company make sure that it is only rewarding truly stretching performance?

Targets for both short and long-term incentives are aligned to the stretching performance commitments set out in our final determination. For the annual bonus, payment is only made if the targets are achieved in full, there are no range or threshold targets. This is reflected in the outcome of the 2021/22 annual bonus where only two measures, water quality and interruptions to supply targets were achieved and the overall percentage payable under the financial and customer elements of the scheme was 11.4% of the maximum out of a possible 80%. As our performance has started to improve in a number of areas we expect this to increase for 2022/23.

Remuneration report continued

Our remuneration philosophy

1 Benchmark salaries against the market median

- Providing market-based competitive packages to attract and retain high performing individual
- Demonstrating to stakeholders that employees provide value for money

2 High proportion of variable pay with stretching targets

- Drive out performance and stakeholder value
- Stretching performance targets

3 Provide valued benefits

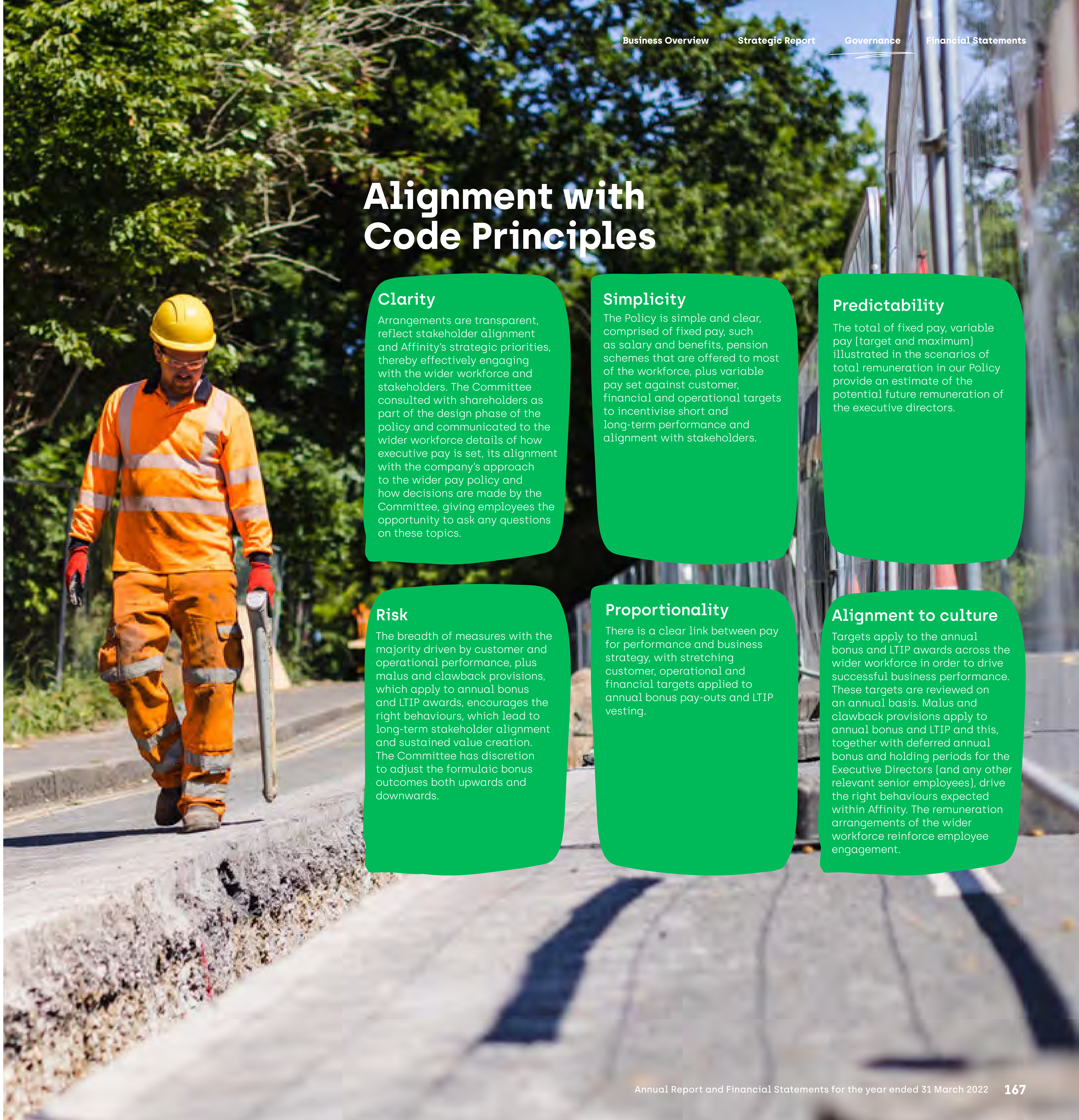
- High-quality pensions aligned across the workforce
- Flexible ways of working and wellbeing support

4 Ensure alignment with strategy across the business

- Alignment of performance and incentives throughout the business
- Alignment to long-term customer and stakeholder interests

"Our Remuneration Policy strives to ensure that the management team is rewarded appropriately for delivering against Affinity's strategic priorities and that significant benefits are delivered for all stakeholders."

Trevor Didcock
Chair of Remuneration Committee



Alignment with Code Principles

Clarity

Arrangements are transparent, reflect stakeholder alignment and Affinity's strategic priorities, thereby effectively engaging with the wider workforce and stakeholders. The Committee consulted with shareholders as part of the design phase of the policy and communicated to the wider workforce details of how executive pay is set, its alignment with the company's approach to the wider pay policy and how decisions are made by the Committee, giving employees the opportunity to ask any questions on these topics.

Simplicity

The Policy is simple and clear, comprised of fixed pay, such as salary and benefits, pension schemes that are offered to most of the workforce, plus variable pay set against customer, financial and operational targets to incentivise short and long-term performance and alignment with stakeholders.

Predictability

The total 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, operational and financial targets applied to annual bonus pay-outs and LTIP vesting.

Alignment to culture

Targets apply to the annual bonus and LTIP awards across the wider workforce in order to 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. The remuneration arrangements of the wider workforce reinforce employee engagement.

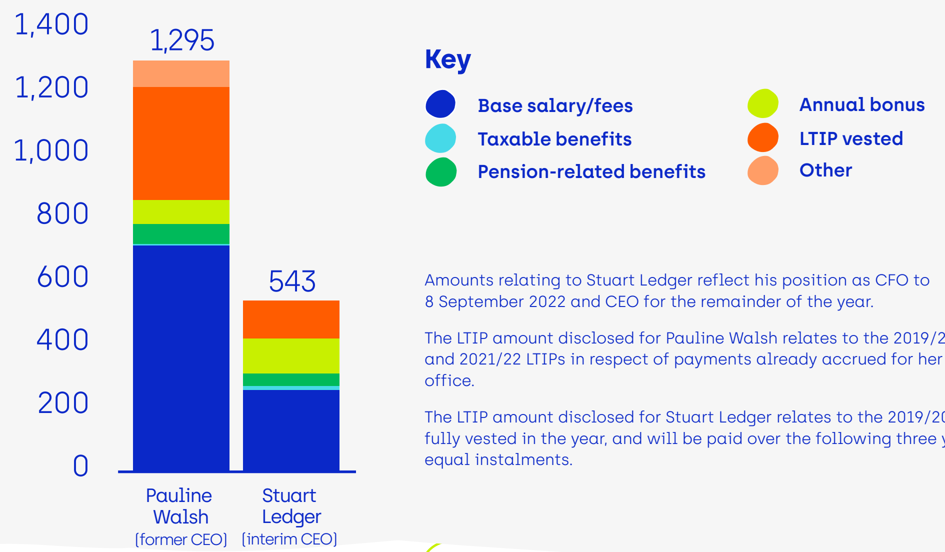
Remuneration report continued

Remuneration at a glance

Aligning our approach to Business Strategy

Element of Remuneration	Alignment to Strategy	Alignment to our stakeholders' interests
Annual Bonus Remuneration		
Cash generated by operations:	• Ensures we can invest in our assets and provide a great service that customers value	Customers, Communities, Shareholders
Leakage (M/ld)	• Ensures customers have enough water, whilst leaving more water in the environment	Customers, Communities, Regulators
Water quality: CRI score	• Ensures customers have high-quality water they can trust	Customers, Communities, Regulators
Interruptions to Supply (Minutes interrupted above 3hrs)	• Ensures we can minimise disruption for customers and the community	Customers, Communities, Regulators
Customer Consumption (PCC litres per day)	• Ensures we can make sure customers have enough water, whilst leaving more water in the environment	Customers, Communities, Regulators
Properties at risk of low pressure: per 10,000 properties	• Ensures we can minimise disruption for customers and the community	Customers, Communities, Regulators
C-MeX: position in the league table	• Positions ensures we focus on providing a great service that customers value	Customers, Shareholders, Regulators
Safety (Accident frequency rate)	• Ensures our people can work to deliver our customer outcomes effectively	Employees, Regulators
Long-term Incentive Plan ('LTIP')		
Financial	• Ensures we achieve long-term stakeholder value based on company performance	Customers, Employees, Shareholders, Communities, Regulators
Customer service	• Ensures we provide a great service that customers value	Customers, Shareholders, Regulators
Employee	• Ensures our employees are engaged to support our culture and fulfilment of our purpose	Employees

Single total figure of remuneration for executive directors for year ended 31 March 2022



Amounts relating to Stuart Ledger reflect his position as CFO to 8 September 2022 and CEO for the remainder of the year.

The LTIP amount disclosed for Pauline Walsh relates to the 2019/20, 2020/21 and 2021/22 LTIPs in respect of payments already accrued for her period in office.

The LTIP amount disclosed for Stuart Ledger relates to the 2019/20 LTIP, which fully vested in the year, and will be paid over the following three years in equal instalments.

Read more about Directors' remuneration on page 180

Aligning pay with performance

Key performance indicator (for the bonus and LTIP measures included below)	Result
Cash from operations*	£(28)m
Leakage	9.3%
Water Quality	1.1
Interruptions to supply	3.5 mins
Customer Consumption	23 Ml/d
Properties at risk of low pressure	54.277
C-MeX	13th
Accident frequency rate	0.23
Shadow RCV	£1,476m
Long-term plan outcomes	ODI's not achieved
Ongoing Customer Service	13th
Employee Engagement	62%

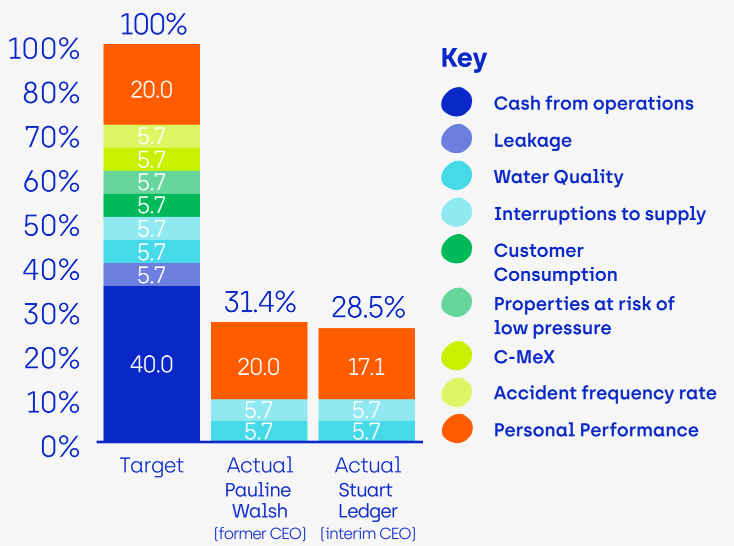
Key
- Below threshold target
- Between threshold and stretch target
- At or above stretch target

* Cash from operations target was not met for bonus but threshold was met for LTIP

Annual bonus and long-term plan incentives outcomes

The charts below show the results of the performance against targets for the annual bonus and LTIP. Further information about the annual bonus is shown on page 174 and about the LTIP on page 173.

2021/22 Annual bonus outcome

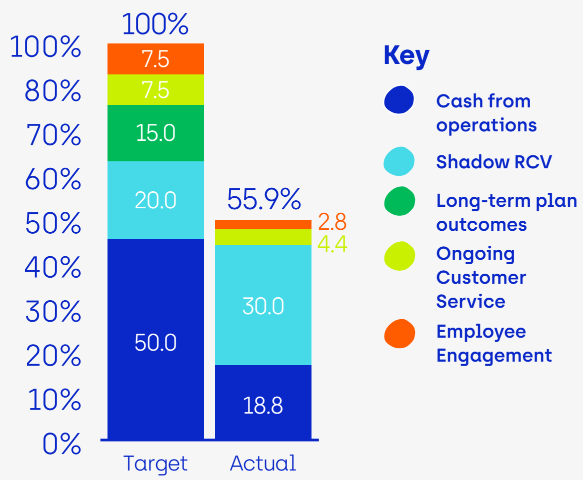


Actual amounts are calculated on a base salary of 100% for the CEO (Pauline Walsh) and 75% for the CFO (Stuart Ledger).

The bonus paid to the former CEO (Pauline Walsh) was made on a pro-rata basis for her period in office.

Refer to page 182 for an additional discretionary bonus of £69,043 paid to the interim CEO (Stuart Ledger) relating to the achievement of specific personal objectives.

2019/20 Long-term Investment Plan ('LTIP') outcome for 2021/22



Target and Actual amounts are calculated on an initial award of base salary of 100% for the CEO (Pauline Walsh) and 83.33% for the CFO (Stuart Ledger).

The LTIP paid to the former CEO (Pauline Walsh) was made on a pro-rata basis for her period in office regarding 2021/22 outcomes.

The LTIP award for Stuart Ledger has been calculated under the CFO LTIP criteria.

Remuneration report continued

Remuneration policy report

Introduction

We have prepared this report in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'), which are applicable to companies whose equity shares are listed. The Regulations are not applicable to the company but are reported under to ensure 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 AGM of the company.

At our 2021 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 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 policy report

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 six occasions during the year, and was chaired by Susan Hooper, an INED. Trevor Didcock, our senior INED has taken over the chairing of the Committee with effect from 1 April 2022.

Membership of the Committee during the year is shown in the table below:

Director	Independence
Susan Hooper (Chair to 31 March 2022)	Independent
Ian Tyler	Independent
Trevor Didcock (Chair from 1 April 2022)	Independent
Mark Horsley	Independent
Ann Bishop	Independent
Roxana Tataru (from 1 July 2021)	Shareholder appointed
Jaroslava Korpanec (Resigned 28 June 2021 and reappointed as an Alternate on 4 January 2022)	Shareholder appointed
Angela Roshier	Shareholder appointed

Pauline Walsh, former CEO, Stuart Ledger, CFO and subsequently Interim CEO and the People Director 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 Executive Management Team against planned targets.

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

The remuneration framework is structured and appropriately balanced between fixed elements and incentive pay, to ensure that executives deliver a high standard of performance, whilst minimising risk to the business in the longer term.

The Committee ensures that the performance measures are objective, easy to understand and motivational to the participants. The Committee also reviews and approves the Executive Management Team bonus scheme and reviews the senior manager and company-wide bonus schemes.

Remuneration policy for non-executive directors

Ian Tyler receives a fixed annual fee for his services as Chair of the company, reflecting the time commitment and responsibilities of the role.

The other Non-Executive directors in office at 31 March 2022 fell into two groups.

Group A	Group B
Ann Bishop	**Jaroslava Korpanec**
Trevor Didcock	**Tony Roper**
Susan Hooper	**Angela Roshier**
Mark Horsley	**Roxana Tataru**
Chris Newsome	
Justin Read	

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.

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 and stakeholders and the interests of shareholders.

The remuneration arrangements incorporate performance measures, which link to the standards of performance we provide to customers as well as the value created for shareholders. For 2022/23, the proposed changes to incentives ensure that we meet Ofwat's requirements of at least 60% being aligned to customer outcomes.

The remuneration packages for all new executive directors are set in line with the company's approved policy, to ensure we meet the objectives set in the Ofwat publication "Putting the sector back in balance" and is consistent with our AMP7 plan. 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 the best candidate.

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 for 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 2021/22 were considered through the presence of two directors 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. The Committee reviewed the Workforce Pay Policy to ensure it was being sensitive to pay and employment conditions elsewhere in the company when setting directors' remuneration.

This ensured that pay for both directors and employees is at the median of the market it operates in and that pay reflects the competence and experience of the individual at the time of appointment. The Committee reviewed the relevant sections of the Workforce Pay Policy relating to salary at appointment, annual pay reviews, company bonuses and variable pay when drawing up the directors' remuneration policy. 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 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, 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 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.

For interruptions to supply, the target for employees, senior managers and executive directors differs from our performance commitment as we have a performance improvement plan that targets a path of constant improvement to reach the performance set in the final determination by the end of the AMP.

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, whilst leaving more water in the environment
- Providing a great service that you value
- Minimising disruption to you and your community

The Remuneration Committee determined the level of bonus awarded in relation to personal performance, assessing objectives set at the start of the year, application of the company principles and overall performance of executive directors.

2022/23 Structure and targets

For 2022/23, we have agreed changes to the metrics included within the annual bonus scheme for executive directors and the weighting of the various metrics to ensure that we are in line with Ofwat's view of good practice and are continuing to have stretching targets in place that reflect our biggest priorities. These changes will flow through into the annual bonus for the Executive Management Team, senior manager and all company scheme. Details of these changes are set out in the table on the following page.

We have also agreed changes to the structure of the LTIP for 2022/23, changing and reweighting the metrics within the scheme and setting them as end of AMP targets to ensure that we are meeting Ofwat's good practice expectations and incentivising long-term, sustainable performance in line with our 'journey to 2025' programme. Details of these changes are set out in the table across.

Given the tough challenges the company faces in AMP7, the executive directors did not receive a salary increase for the year 2020/21 or 2021/22.

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	Changes for 2022/23
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 a three-year performance period, with 33% of the amount earned paid in year four, 33% paid in year five and 33% paid in year six, subject to the achievement of performance conditions. The scheme is based on three-year targets that are aligned to strategic delivery for AMP7. The targets for each metric are set in each year of the AMP. No award will be made for a metric if performance is below target/plan and additional award will be made if the company meets its stretch targets. Base awards include clawback and malus provisions, as detailed below. The awards do not automatically vest on change of control of the business.	Up to 100% of base salary for the CEO and 83.33% of base salary for the CFO for on target performance, and up to 150% of base salary for the CEO and 125% of base salary for the CFO if stretch targets are achieved.	The award is determined based on the performance of the company over the three years. For the 2021/22 LTIP, 40% of the scheme pay-out is based on financial targets, including cash generated from operations and investment targets; 50% based on customer service and stakeholder commitments, including C-MeX (6.25%) and D-MeX (6.25%) position, water quality (6.25%), helping vulnerable customers (6.25%), leakage (6.25%), consumption (6.25%), mains bursts (6.25%) and environmental innovation (6.25%); and 10% based on employee commitments, including culture surveys (5%) and safety (5%). These arrangements were formally agreed during the February 2021 Remuneration Committee meeting.	For 2022/23 in order to meet the Ofwat guidance that 60% of incentives should be based on achievement of customer measures, it has been agreed that this scheme metrics will be as follows: **Financial:** • Regulated TOTEX (15%) • Non-Regulated EBITDA (5%) **Customer & Responsible Business:** • Our Top 8 Performance Commitments (40%) • Net zero, abstraction reduction, river restorations (10%) **People:** • Employee engagement (10%) **Long-term plan:** • AMP8 plan quality (10%) • AMP8 readiness (10%) There will also be an underpin based on safety performance. It has also been agreed that targets will be set by reference to end of AMP performance rather than on an annual basis. The rest of the scheme remains unchanged. Further work will also take place during 2022/23 to further refine the scheme for next year as performance targets for the next AMP will not be agreed making a three year scheme challenging for next year. These arrangements were formally agreed during the Remuneration Committee meeting on 28 June 2022.

Remuneration report continued

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	Changes for 2022/23
Base salary				
To provide competitive fixed remuneration that will attract and retain key employees and reflect their experience and position in the company.	To target around market median, dependent on experience in the role.	N/A	N/A	No changes have been made to the policy for 2022/23 up to the date of approval of this Annual Report and Financial Statements.
Other taxable benefits				
To provide market competitive benefits.	Private health care insurance cover and life assurance are provided, together with a fully expensed company car (or car allowance).	N/A	N/A	No changes have been made to the policy for 2022/23 up to the date of approval of this Annual Report and Financial Statements.
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 AMP7 commitments, plus individual targets.	Up to 100% of base salary for the CEO and up to 75% of base salary for the CFO. Where discretion is applied to executives relating to the performance of measures, the same level of discretion must be applied to all employees and managers.	40% of the total bonus is determined on the achievement of the financial performance target, which is based on net cash outflow before taxation and financing. 40% of the total performance is on customer service and stakeholder commitments including C-MeX (5.7%), leakage (5.7%), consumption (5.7%), water quality (5.7%), water pressure (5.7%), interruptions to supply (5.7%) and safety (5.7%). 20% of the total bonus is determined on the achievement of personal objectives. No payment will be awarded if achievement is below the target/plan for that metric. There is also the introduction of a check that considers pay-out of the bonus if either the customer or the financial elements of the bonus fall below a set level to ensure equal focus across all metrics. Reduction in the discretion of the Committee to award any bonus outside performance delivery. This was approved by the Remuneration Committee in April 2021.	For 2022/23 in order to meet the Ofwat guidance that 60% of incentives should be based on achievement of customer measures, it has been agreed that this scheme metrics will be as follows: • Regulated Totex & Working Capital (20%) • Non-regulated cash (5%) • Our Top 8 Performance Commitments (6.25% each) 1. C-MeX 2. D-MeX 3. Low Pressure 4. Mains repairs 5. Interruptions to supply 6. Water Quality 7. Leakage 8. Per Capita Consumption • Safety (5%) • Personal performance against objectives (20%)

Purpose and link to strategy	Policy and approach	Maximum potential value (as % of base pay)	Performance metrics	Changes for 2022/23
Pension-related benefits				
To provide competitive post-retirement benefits.	Under the defined contribution scheme, executives who joined the company before 1 April 2020 contribute at a rate of 7% of salary and the company contributes at 20%. Executives who joined the company after this date 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%.	20% of executive salary for executives appointed before 1 April 2020, 12% of executive salary for executives appointed after this date. Where executive directors are not members of the defined contribution scheme, the directors received a taxable allowance in lieu. This only applies currently to the interim CEO who receives an allowance of 12% of his combined salary and acting up allowance.	N/A	It has been agreed that any permanent appointments in to the CEO and CFO roles will be at a maximum of 12% employer contribution
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 2022/23 up to the date of approval of this Annual Report and Financial Statements.

Remuneration report continued

Executive directors' service contracts

The executive directors who served during the year each had service contracts, neither of which are fixed term, with notice periods as follows:

CEO Pauline Walsh	CFO Stuart Ledger
From the Executive to the company – 12 months	From the Executive to the company – 6 months
From the company to the Executive – 12 months	From the company to the Executive – 6 months

Pauline Walsh stepped down as CEO on 8 September 2021 and exited the business on 30 November 2021. Stuart Ledger took over as Interim CEO on 8 September 2021.

Generally, in the event of loss of office, the executive directors are subject to the terms and conditions as set out in their respective service contracts and employment letters with the company. These service contracts do not set out details of how the circumstances of the director's departure and performance during a period of office might be considered when exercising discretion in relation to loss of office payments. They also do not contain provisions implying an obligation on the company in the event of loss of office.

Base awards under the LTIP include provisions that enable the company to recover sums paid or withhold the payment of any sum in a circumstance or circumstances of malus before the vesting of the award or within a clawback period of three years commencing on the payment date of the award.

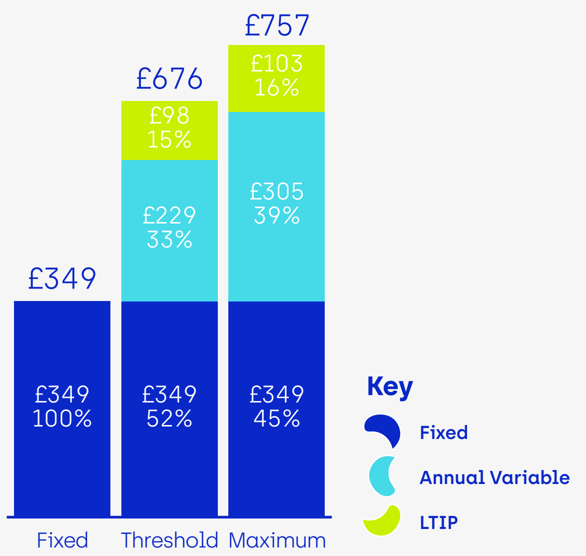
Circumstances of malus include wilful or gross misconduct, acts of personal dishonesty or fraud, conviction of certain criminal offences, conduct which results in significant losses to the company, material failure of related management or business units, material misstatement in the audited financial statements, and reputational damage. If an executive director ceases to hold office prior to the vesting date, other than in the event of death; ill-health, injury, or disability, as established to the satisfaction of the Board; the company ceasing to be part of the Group or transferred to another group company; or another reason at the Board's discretion, except where the director is summarily dismissed, their unvested award will lapse.

There are no arrangements in place for the remuneration of directors by any other company in the Group.

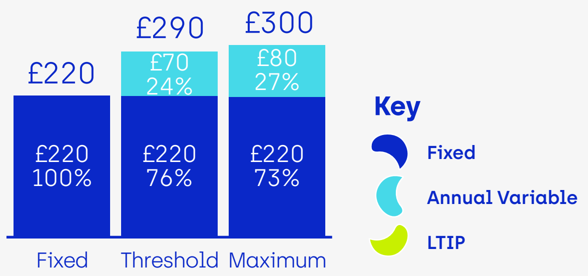
Pay-outs under different scenarios

The following charts show the potential remuneration in respect of 2022/23 under the existing interim contractual arrangements for both the interim CEO and CFO under different scenarios.

Chief Executive Officer £000s



Chief Financial Officer £000s



In developing the scenarios, the following assumptions have been made:

Fixed	Consists of base salary, taxable benefits and pension-related benefits including cash allowances in lieu of being a member of the company's retirement benefit schemes.
Threshold	Based on what an executive director would receive if the threshold level of performance relating to the company bonus was achieved: annual variable pay out at 75% of maximum (assuming the financial, operational, customer and community, safety and health, and personal targets are met), in addition to awards from the 2018/19 LTIP that vested in 2020/21, the final third of the total, of which becomes payable in 2022/23, the 2019/20 LTIP that vested in 2021/22, the second third of the total, of which becomes payable in 2022/23, and the first award from the 2020/21 LTIP, which will vest in 2022/23 and become payable.
Maximum	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 100% of maximum (assuming the financial, operational, customer and community, safety and health, and personal targets are met), in addition to awards from the 2018/19 LTIP that vested in 2020/21, the final third of the total, of which becomes payable in 2022/23, the 2019/20 LTIP that vested in 2021/22, the second third of the total, of which becomes payable in 2022/23, and the first award from the 2020/21 LTIP, which will vest in 2022/23 and become payable.

Management

We operate a discretionary performance bonus scheme for other senior managers (the Executive Management Team) 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, such managers continued to be entitled to participate in a performance-related discretionary bonus scheme for up to 40% 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 Executive Management Team, they are determined by reference to three components:

- 40% of the total bonus is dependent on the achievement of financial performance targets, which are identical to the executive directors' annual bonus scheme;
- 40% of the total bonus is dependent on the achievement of operational, customer performance and safety targets, which are identical to the executive directors' annual bonus scheme; and
- 20% 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 are determined by reference to three components:

- 40% of the total bonus is dependent on the achievement of financial performance targets;
- 40% of the total bonus is dependent on the achievement of customer service and stakeholder commitments; and
- 20% 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

A measure of the company's culture is included in the long-term incentive plan, with targets set over three years to incentivise the development of the culture to be increasingly customer focused, inclusive and high performing. Making sure that we have a culture, which is motivating for employees, and which supports the achievement of business priorities is key to enabling the business to be successful and achieve its objectives for the benefit of both customers and shareholders.

The key elements of focus for the business in developing the desired culture include having a clear ambition for the business, being clear on what success looks like, the role that each individual plays in achieving that success and articulating and embedding the behaviours that will enable us to be successful. We are also focusing on creating a two-way conversation within the business to enable us to identify and unblock problems that prevent us from delivering an excellent service to our customers or which are demotivating to our teams.

We are also, in the coming year, looking to invest in our leaders through development interventions, which build leadership capability in line with our principles and behaviours.

Our overall people strategy aims to build employee engagement and develop the culture and our priorities for the coming year include developing and implementing a job family and career framework to enable our people to understand how they can develop their careers within the business, implementing a new employee engagement tool, Peakon, to help us to better understand and act on a range of areas that contribute to the levels of engagements within the business. A particular area of focus is on building a more diverse and inclusive workforce and supporting the wellbeing of all of our employees building on the significant amount of work that has taken place in these areas over the last few years.

We have recently grown our employee networks by introducing the ONE Network for Black, Asian, and Minority Ethnic ('BAME') employees and the 'Let's Talk Men's Health' Network focusing on men's mental health and wellbeing and have an action plan in place to reduce our gender and ethnicity pay gap.

Remuneration report continued

Employee engagement on remuneration

Employee Engagement

All employees, except the Executive Management Team, are covered by collective bargaining arrangements with our recognised trade unions. As a result, the Company works closely with the trade unions on all pay-related items for the collective bargaining group and has over the last year completed a number of policy reviews and successful pay negotiations, which resulted in a 4.6% increase for all employees except the Executive Management Team with effect from 1 January 2022.

Three employee engagement questions:

How are employees recognised for living the principles?

Employees told us that they didn't always feel recognised for going above and beyond so we introduced a peer to peer recognition scheme where any employee can nominate a colleague for living our principles. As a result 550 employees were recognised last year for delivering for customers.

How do we make sure the views of our field teams are heard and acted on?

Our employee survey told us that our colleagues working out on sites and in the field don't always feel that they have the opportunity to contribute or have their views heard. As a result, we've introduced an employee forum across our customer delivery teams where representatives from different areas come together to raise issues, work together to develop solutions and to input into company initiatives.

Improving our recruitment experience.

People managers, candidates and new joiners told us that our recruitment processes were too complicated and time consuming, so we have introduced a new careers site and applicant tracking system, which has vastly improved the experience for everyone, and which better enables us to tell our story to potential future employees. The system not only simplifies and speeds up the process, but it also supports our EDI ambitions by offering things like anonymous applications to ensure we are removing potential bias at the application stage. We have developed and rolled out hiring manager training alongside this new process, which also includes mandatory unconscious bias training. As a result of this investment, we have seen a significant reduction in our time and cost per hire.

Remuneration report continued

Remuneration implementation report

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 Executive Management Team or senior manager performance bonus scheme. The discretionary company-wide bonus scheme comprises operational and customer performance measures and a financial performance measure.

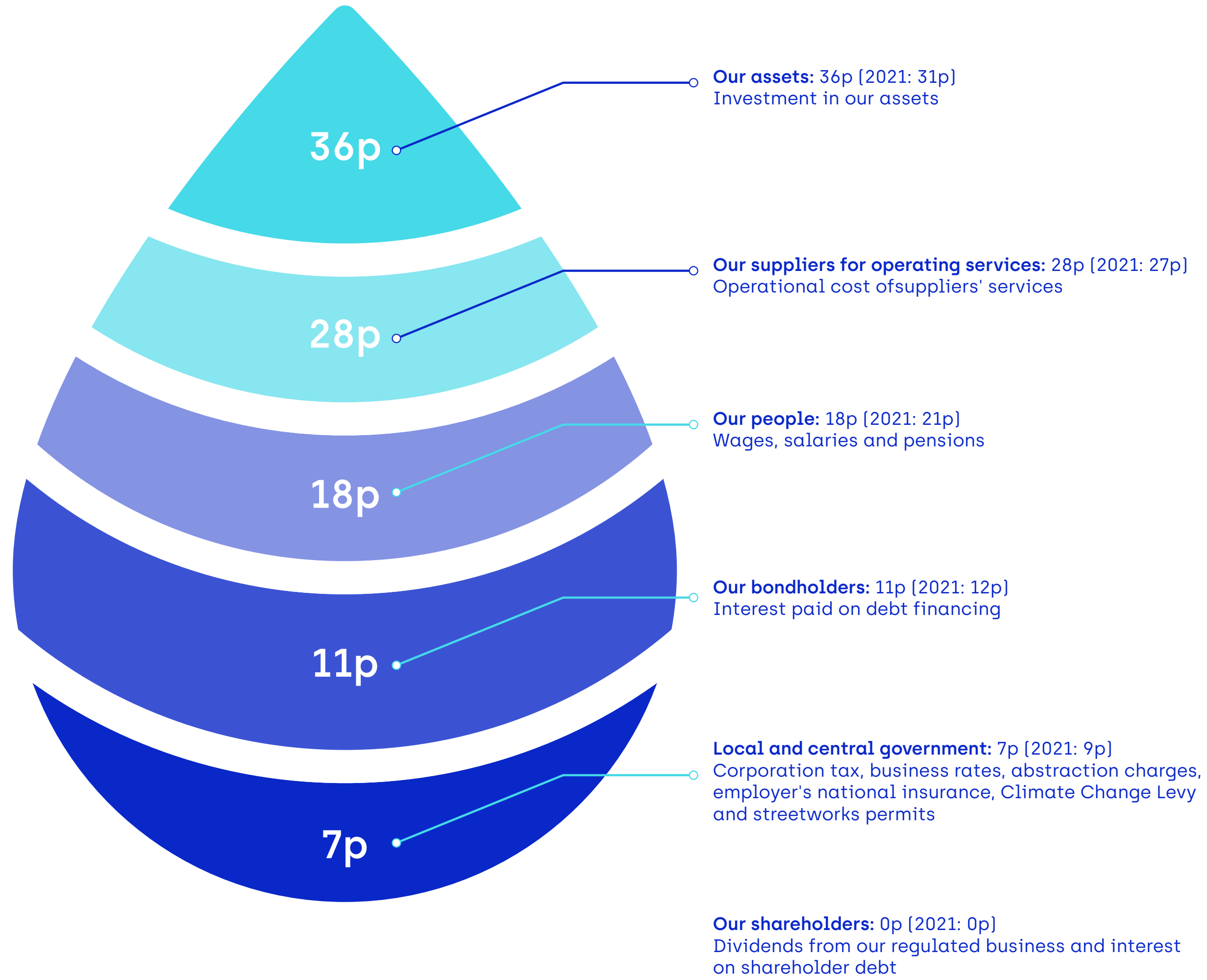
At the date of approval of this Annual Report and Financial Statements, the bonus targets for operational, customer and financial performance continued to be aligned with those in the schemes for senior managers and executives. This ensures there is a common focus across the business, particularly with respect to service to customers.

Relative importance of spend on pay

The amount spent on our people in 2021/22 has increased compared to the prior year. While the number of employees as at 31 March 2022 is broadly in line with prior year headcount, costs have been impacted by the restructuring of our business in order to be able to continue to deliver the significant efficiencies planned for AMP7. There was no year-on-year pay increase from 1 April 2021, although an increase of 4.6% was approved in the year and applied from 1 January 2022.

Our people costs are still our third highest expenditure type, after our assets and our suppliers for operating services, although reducing from 21p to 18p per pound of each customer bill, as shown below, largely due to the increased spend on our assets on a proportional basis in the year[1].

[1] Figures are based on our regulatory financial statements for the year ended 31 March 2022 and have been rounded



Remuneration report continued

Remuneration implementation report continued

Sections that are audited and unaudited are defined in the relevant headings in the implementation report.

Directors' remuneration 2021/22 (audited)

The following table shows directors' remuneration in respect of 2021/22.

	Base salary/ fees[1] £000		Taxable benefits[2] £000		Annual bonus £000		LTIP[3] £000		Pension - related benefits[4] £000		Other[5] £000		Total fixed remuneration £000		Total variable remuneration £000		Total £000	
	21/22	20/21	21/22	20/21	21/22	20/21	21/22	20/21	21/22	20/21	21/22	20/21	21/22	20/21	21/22	20/21	21/22	20/21
Non-Executive																		
Current																		
Ann Bishop	**44**	44	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**44**	44	**–**	–	**44**	44
Trevor Didcock	**51**	51	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**51**	51	**–**	–	**51**	51
Susan Hooper	**49**	49	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**49**	49	**–**	–	**49**	49
Mark Horsley	**44**	44	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**44**	44	**–**	–	**44**	44
Chris Newsome	**49**	49	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**49**	49	**–**	–	**49**	49
Justin Read	**50**	35	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**50**	35	**–**	–	**50**	35
Former																		
Patrick O'D Bourke	**–**	25	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	25	**–**	–	**–**	25
Company Chair																		
Current																		
Ian Tyler	**195**	44	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**195**	44	**–**	–	**195**	44
Former																		
Tony Cocker	**–**	159	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	159	**–**	–	**–**	159
Executive																		
Current																		
Stuart Ledger	**263**	210	**4**	6	**114**	57	**120**	76	**42**	42	**–**	–	**309**	258	**234**	133	**543**	391
Pauline Walsh	**710**	365	**4**	8	**76**	125	**362**	206	**63**	78	**80**	–	**777**	451	**518**	331	**1,295**	782
Total	**1,455**	1,075	**8**	14	**190**	182	**482**	282	**105**	120	**80**	–	**1,568**	1,209	752	464	**2,320**	1,673

1 Base salary in 2021/22 for Pauline Walsh includes an amount of £466,250 for payment in lieu of notice

2 Taxable benefits comprise company car allowance, and healthcare and travel insurance

3 The LTIP amount disclosed for Stuart Ledger relates to the 2019/20 LTIP, which fully vested in the year ended 31 March 2022. This amount will be paid in equal instalments over the three years ending 31 March 2023, 31 March 2024 and 31 March 2025. The LTIP amount disclosed for Pauline Walsh relates to the 2019/20, 2020/21 and 2021/22 LTIPs in respect of payments already accrued for her period in office

4 Pension-related benefits for Stuart Ledger and Pauline Walsh comprised amounts paid in lieu of being a member of the pension scheme; there were no amounts outstanding at year-end

5 Other remuneration in 2021/22 for Pauline Walsh related to compensation for loss of office

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.

Pauline Walsh Exit Payments

As part of the mutually agreed exit of Pauline Walsh as CEO she received a payment in lieu of her base salary and benefits for her contractual notice period, in line with her contract of employment. She also received, at the discretion of the Committee, a payment for loss of office, payments accrued under the LTIP, which had not yet vested and payments under the bonus and LTIP schemes for the year in which she left the business, prorated to reflect her period of service during 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 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 the 2021/22 year for Pauline Walsh as CEO (paid on pro-rata basis for period in office) and Stuart Ledger as CFO for each of the performance measures. No amounts in relation to these bonuses have been deferred.

Performance measure		Link to Alignment of culture, purpose, values and strategy (page 12 - 13)	2021/22 target	2021/22 actual	Maximum weighting for 2021/22 (as a % of base salary)		2021/22 achievement (as a % of base salary)	
				Target met	Pauline Walsh	Stuart Ledger	Pauline Walsh	Stuart Ledger
Financial measure	Cash generated by operations: net cash outflow before taxation and financing[1]	Targeting sufficient cash generated by operations ensures we can invest in our assets and provide a great service that customers value	£(22)m or higher	£(28.2)m ✗	40.0% £97,333	30.0% £63,000	0.0% £nil	0.0% £nil
Operational measures	Leakage: volume of water lost through leaks on the network (Ml/d)	Targeting a continued reduction in leakage will ensure customers have enough water, whilst leaving more water in the environment	11.1% reduction from base or less	9.3% ✗	5.7% £13,870	4.3% £8,977	0.0% £nil	0.0% £nil
	Water quality: CRI score	Targeting a low CRI score ensures customers have high-quality water they can trust	2.0 or less	1.1 ✓	5.7% £13,870	4.3% £8,977	5.7% £13,870	4.3% £8,977
	Interruptions to supply: minutes interrupted above three hours	Targeting few interruptions to supply ensures we can minimise disruption for customers and the community	9 mins or less	3.5 mins ✓	5.7% £13,870	4.3% £8,977	5.7% £13,870	4.3% £8,977
	Customer consumption: PCC litres per day	Targeting customer consumption ensures we can make sure customers have enough water, whilst leaving more water in the environment	29.86 Ml/d reduced through activity	23.0 Ml/d ✗	5.7% £13,870	4.3% £8,977	0.0% £nil	0.0% £nil
	Properties at risk of low pressure: per 10,000 properties	Targeting reducing properties at risk of lower pressure ensures we can minimise disruption for customers and the community	1.513 or less	54.277 ✗	5.7% £13,870	4.3% £8,977	0.0% £nil	0.0% £nil
Customer and community measures	C-MeX[2]: position in the league table	Targeting an improvement in the C-MeX positions ensures we focus on providing a great service that customers value	11th or higher	13th ✗	5.7% £13,870	4.3% £8,977	0.0% £nil	0.0% £nil
Safety and health measure	Accident frequency rate (annual target): number of lost time injuries per 100,000 hours worked	Targeting a low accident frequency rate ensures our people can work to deliver our customer outcomes effectively	0.22 or lower	0.23 ✗	5.7% £13,870	4.3% £8,977	0.0% £nil	0.0% £nil
Personal performance[3]					20.0% £48,667	15.0% £31,500	20.0% £48,667	12.8% £26,776
Total % of base salary					100.0%	75.0%	31.4%	21.3%
Base salary							£243,333	£210,000
Bonus paid							£76,407	£44,730

1 This 'non-GAAP' measure is the total of the following line items per the statement of cash flows (refer to page 210): cash generated from operations; purchases of property, plant and equipment; proceeds from sale of property, plant and equipment; purchase of intangible assets; and principal elements of lease payments. The bonus measure has been adjusted for the impact of timing on revenues earned and capital spend and is before statutory adjustments

2 C-MeX is the industry's measure of customer 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 2021/22

Remuneration report continued
Remuneration implementation report continued

Annual bonuses for executive directors (unaudited) 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, the Remuneration Committee believes this was appropriate.

In his role as interim CEO, Stuart Ledger was entitled to an additional bonus with a maximum bonus opportunity of 51% of his base salary relating to the achievement of specific personal objectives awarded at the discretion of the Remuneration Committee in lieu of an increased LTIP or bonus pro-rated for the period in which he has been acting up as CEO. This percentage reflects the additional responsibilities undertaken but is lower than the standard CEO bonus and LTIP entitlement. The Committee awarded him 65% of this additional bonus opportunity generating a payment of £69,043.

In reviewing the performance of the interim CEO, Stuart Ledger, against his personal performance objectives, the Committee considered the following, covering the period of time he was in the CFO role and the interim CEO role:

Establishing a new operating model and establishing a new Executive Management Team	• New EMT identified and recruited with three external new hires (one interim) and one internal promotion • Organisational changes made to bring production and network together to create one team accountable from 'source to tap' • IT team brought closer to the business and to the customers by bringing it together with customer experience teams in one directorate
PR24/Strategy resources and plan development	• Programme plan developed and programme team structure established and resourced • Board engagement approach developed and agreed • Initial financial model and outline exec summary developed highlighting potential constraints and impacts
Development of culture	• Visibility with the workforce and establishment of a communications rhythm within the business • Development of cultural roadmap to articulate ambition and desired behaviours
Leakage and C-MeX Performance improvements	• Leakage performance significantly improved • C-MeX improvement plan developed and being delivered

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 148 to 155 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)

In 2021/22, a pay deal covering the period 1 January 2022 to 31 March 2023 was negotiated with trade unions, resulting in the following:

- 4.6% increase to the basic pay of all employees; and
- 4.6% increase in allowances that are taxable and pensionable, primarily flexible, and standby allowances.

This pay deal did not apply to the executive directors or members of the Executive Management Team who did not receive a salary increase for the years 2020/21 or 2021/22. The maximum potential annual bonus available to employees remained unchanged from 2020/21.

		Total base salary/fees, taxable benefits and annual bonus 2021/22 £000	2020/21 £000	Percentage change %	
NED	Ann Bishop	44	44	0.0%	
NED	Trevor Didcock	51	51	0.0%	
NED	Susan Hooper	49	49	0.0%	
NED	Mark Horsley	44	44	0.0%	
NED	Chris Newsome	49	49	0.0%	
NED	Justin Read	50	35	N/A	Director appointed on 14 July 2020
Company Chair	Ian Tyler	195	44	N/A	Chair appointed on 11 January 2021
Executive Director	Stuart Ledger	381	273	39.6%	Increase due to revised contractual terms as interim CEO from September 2021, including additional bonus based on personal objectives related to the interim CEO role
Executive Director	Pauline Walsh	790	498	58.6%	Increase due to payment in lieu of notice in the current year partially offset by a reduced pro-rata annual bonus in the current year due to financial and operational targets not met in the year

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
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

The ratios above for 2021/22 are calculated using the 5 April 2021 gender pay gap data as permitted under Option B. Option B was used as the gender pay gap reporting date falls within the 2020/21 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 2021 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.

Payroll data has then been used to calculate total 2021/22 remuneration for the employees identified, which includes wages and salary, taxable benefits, their accrued 2021/22 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 2021/22 for Pauline Walsh and Stuart Ledger on a pro-rata basis for their respective terms of office during the year. There was a decrease in the CEO pay ratio for two of the three percentiles in year mainly due to employees receiving a 4.6% basic pay increase from 1 January 2022 with no equivalent increase for the CEO.

2021/22	Salary component of total pay and benefits	Total pay and benefits
25th percentile pay ratio	£30,347	£32,683
Median pay ratio	£37,720	£40,552
75th percentile pay ratio	£46,428	£49,783

We published our latest Gender Pay report of April 2021 data on our website: affinitywater.co.uk/responsibility, which showed a largely unchanged position in our mean gender pay gap from 20.59% in April 2020 to 20.47% in April 2021. We have undertaken a deep dive in to the root causes of our gender pay gap with the support of Inclusive Employer and are developing and implementing an associated action plan.

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 28 June 2022 and signed on its behalf by:

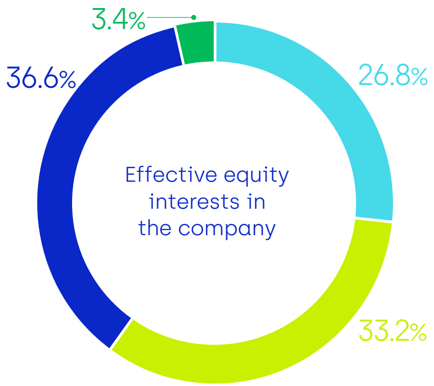
Trevor Didcock
Chair of the Remuneration Committee

12 July 2022

Ownership and financing

Ownership

On 19 May 2017, Affinity Water Acquisitions (Investments) Limited was acquired by a consortium comprising DIF, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) and Allianz Capital Partners on behalf of the Allianz Group. As part of the transaction, the consortium also acquired Veolia Water UK Limited's 10% equity interest stake in the company. Subsequent to the initial acquisition, HICL Infrastructure Company Limited (advised by InfraRed Capital Partners Limited) sold down 3.4% of its interest to a small group of co-investors, comprising UK local authority pension funds in June 2017. On 1 April 2019, HICL Infrastructure Company Limited transferred its investment portfolio, assets, and liabilities to HICL Infrastructure plc, a new listed UK registered investment trust, and shareholders of HICL Infrastructure Company Limited became shareholders of HICL Infrastructure plc. On 1 July 2020, Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP and became an ultimate controller.



Key
- DIF
- Allianz Capital Partners
- HICL Infrastructure plc
- Group of Co-investors

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:

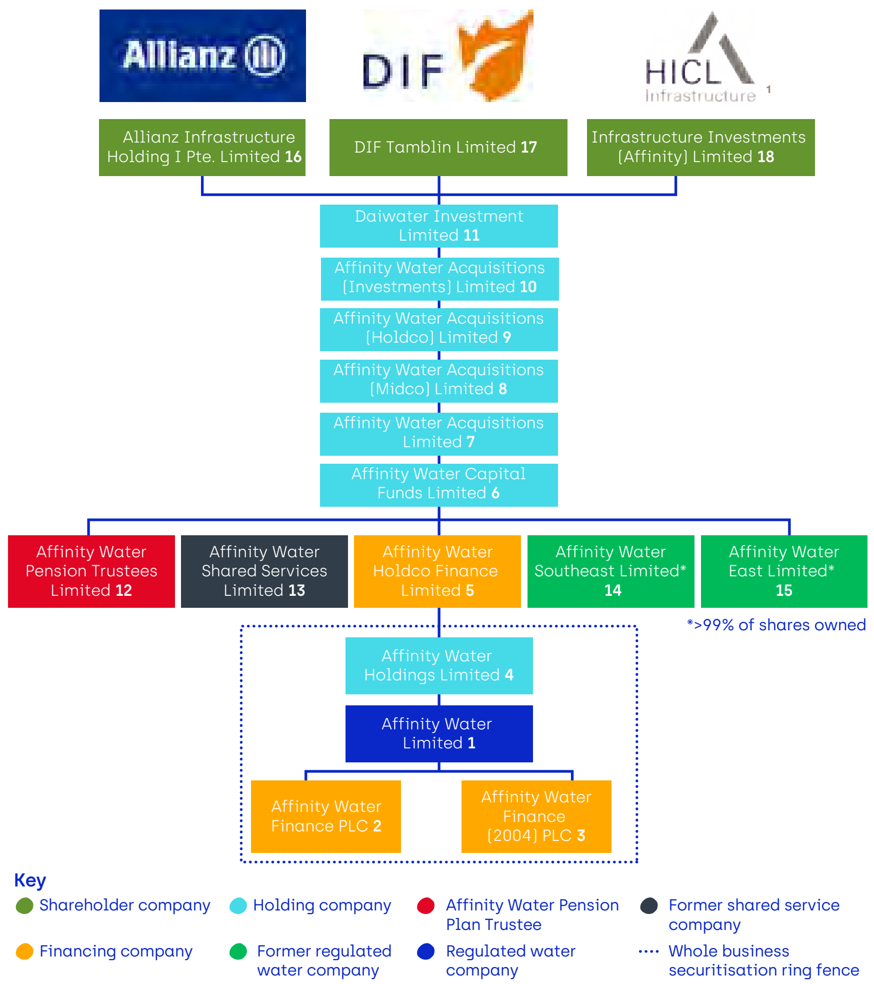
- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc

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 three INEDs, who shall be persons of standing with relevant experience and who shall collectively have connections with and knowledge of the areas for which we are a water undertaker and an understanding of the interests of customers and how these can be respected and protected.

We are satisfied that these undertakings are being properly discharged and that we are able to fully meet our regulatory obligation to operate our appointed business as if it were substantially our sole business and the company were a separate listed company.

The chart below shows the structure of the Group, excluding dormant subsidiaries, as at 31 March 2022. 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 124 to 129.



1 HICL Infrastructure sold down 3.4% of its interest to a small group of co-investors, comprising UK local authority pension funds in June 2017

The following table provides further explanation of the Group structure

Structure chart reference	Company	Description	Place of registration
1	Affinity Water Limited	A water undertaker holding an appointment under the Water Industry Act 1991, supplying water to a population of around 3.8 million people in the South East of England. It is the principal trading company of the Group.	England and Wales
2	Affinity Water Finance PLC	A financing subsidiary of Affinity Water Limited established in 2018 to issue bonds under a Euro Medium Term Note ('EMTN') programme. It lends monies raised from its bonds to Affinity Water Limited.	England and Wales
3	Affinity Water Finance (2004) PLC	A financing subsidiary of Affinity Water Limited established in 2004 to issue a bond. It lends monies raised from its bond to Affinity Water Limited.	England and Wales
4	Affinity Water Holdings Limited	Affinity Water Limited's immediate holding company. Its equity is provided as security to bondholders in the event of default.	England and Wales
5	Affinity Water Holdco Finance Limited	A financing subsidiary of Affinity Water Capital Funds Limited established in 2017. It lends monies raised to Affinity Water Capital Funds Limited.	England and Wales
6	Affinity Water 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, which provides management services to the company.	England and Wales
7	Affinity Water Acquisitions Limited[1]	The company, which bid for and acquired, Affinity Water Capital Funds Limited and its subsidiaries from Veolia Water UK Limited in 2012.	England and Wales
8	Affinity Water Acquisitions (Midco) Limited[1]	The holding company of Affinity Water Acquisitions Limited.	England and Wales
9	Affinity Water Acquisitions (Holdco) Limited[1]	The holding company of Affinity Water Acquisitions (Midco) Limited.	England and Wales
10	Affinity Water Acquisitions (Investments) Limited[1]	The holding company of Affinity Water Acquisitions (Holdco) Limited. It was the ultimate holding company of the Group in the United Kingdom up until 19 May 2017, when it was acquired by Daiwater Investment Limited.	England and Wales
11	Daiwater Investment Limited	The ultimate holding company of the Group in the United Kingdom, paying dividends to the acquisition consortium subsidiaries.	England and Wales
12	Affinity Water Pension Trustees Limited	The trustee company of the Affinity Water Pension Plan.	England and Wales

Ownership and financing continued

13	Affinity Water Shared Services Limited[1]	A company which provided administrative and technical services solely to Affinity Water Limited until 31 March 2015. Its employees were transferred over to Affinity Water Limited on that date. Since the transfer, the company has ceased trading and it is the intention of the directors that the company will be wound up in the near future.	England and Wales
14	Affinity Water Southeast Limited	A company which formerly held an Instrument of Appointment as water undertaker for the Dour community of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales
15	Affinity Water East Limited	A company which formerly held an Instrument of Appointment as water undertaker for the Brett community of Affinity Water Limited's water supply area. The appointment was transferred to Affinity Water Limited on 27 July 2012. The company is no longer trading but continues to honour income assurances made to minority shareholders on transfer of its water undertaking to Affinity Water Limited.	England and Wales
16	Allianz Infrastructure Holding I Pte. Limited	A company which holds indirectly Allianz Capital Partners' investment in the Group.	Singapore
17	DIF Tamblin Limited	A company established in 2017 to hold indirectly DIF's investment in the Group.	England and Wales
18	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

1 The financial statements of these companies have not been prepared on the going concern basis of accounting, as the Daiwater Investment Limited group have commenced a project to simplify the Group structure. It is the intention of the directors of the respective companies that they will be wound up in the year ending 31 March 2023

Our financing

Affinity Water Limited is financially and operationally 'ring-fenced' from the rest of the Affinity Water Group by way of a Whole Business Securitisation ('WBS'). The securitisation further enhances the ring-fencing provisions already in our licence. The sole business of our immediate holding company, Affinity Water Holdings Limited, is holding the shares of Affinity Water Limited.

We have two financing subsidiaries, which have issued bonds that are listed by the UK Listing Authority ('UKLA') and the proceeds of which have been lent on to and are guaranteed by the company:

- Affinity Water Finance (2004) PLC has issued an external bond of £250.0 million; and
- Affinity Water Finance PLC has issued external bonds totalling £894.2 million.

We believe that the ring-fencing structure provides significant corporate benefits, providing better access to long-term debt markets and an opportunity to reduce the cost of capital employed in the regulated business for the benefit of customers.

Bonds issued by both Affinity Water Finance (2004) PLC and Affinity Water Finance PLC are subject to the Listing Rules and Disclosure and Transparency Rules, being listed by the UKLA.

The bonds issued by the company's subsidiaries at 31 March 2022 can be summarised as follows:

Debt	Bond (£m)	Coupon	Maturity Date
Class A fixed rate bond 2026*	250.0	5.875%	July 2026
Class A fixed rate bond 2036*	250.0	4.500%	March 2036
Class A RPI linked bond 2045*	190.0	1.548% (real)	June 2045
Class A CPI linked bond 2038	130.0	0.010% (real)	September 2038
Class A fixed rate bond 2042*	85.0	3.278%	August 2042
Class A fixed rate bond 2033*	60.0	2.699%	November 2033
Class A CPI linked bond 2042*	60.0	0.230% (real)	November 2042
Class A fixed rate bond 2022*	14.2	3.625%	September 2022
Total Class A	**1,039.2**		
Class B RPI linked bond 2033	95.0	3.249% (real)	June 2033
Class B RPI linked bond 2033*	10.0	1.024% (real)	June 2033
Total Class B	**105.0**		
Total	**1,144.2**		

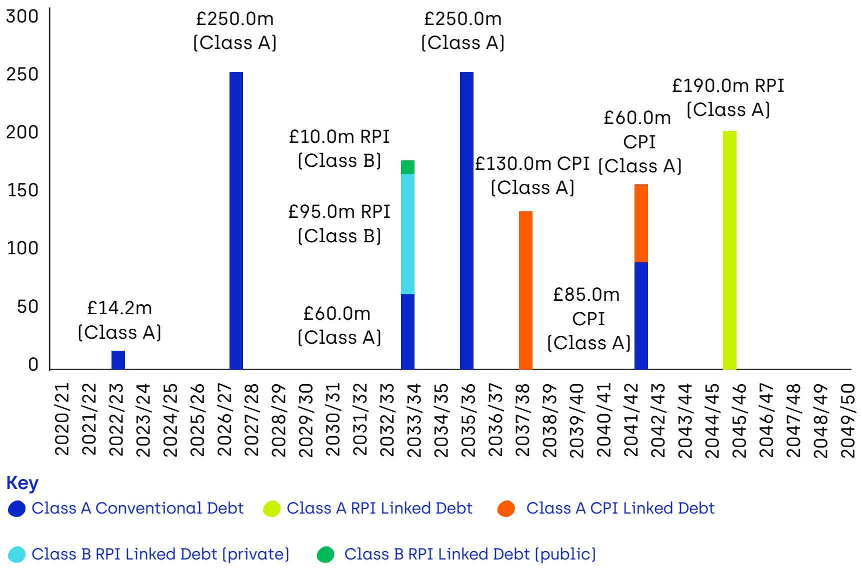
* Listed on the London Stock Exchange

Our next significant debt maturity is in July 2026 when our £250.0m fixed rate bond matures. The maturity profile of all our borrowings is set out in note A4 to our statutory financial statements, and in the graph on the following page.

Our net debt[1] as at 31 March 2022 was £1,079.8 million, an increase of £89.1 million since last year (2021: £990.7 million) primarily due to accretion on the index-linked bonds. Our gearing as measured by net debt to RCV at 31 March 2022 was 73.0% (2021: 76.0%), so has decreased during 2021/22, 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, 52.7% of our gross borrowings were at fixed rates (2021: 61.3%), 30.4% (2021: 33.0%) at rates indexed to RPI and 16.9% (2021: 5.7%) at rates indexed to CPI. Considering our index-linked inflation swaps, the proportion of borrowings at fixed rates decreased to 16.6% (2021: 19.2%), the proportion indexed to RPI increased to 46.8% (2021: 52.5%) and the proportion indexed to CPI increased to 36.6% (2021: 28.3%).

The credit ratings for our subsidiaries' bonds assigned by the rating agencies, Moody's, Standard & Poor's, and Fitch, and affirmed in May 2022, April 2022 and October 2021 respectively, were as follows:

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

Our liquidity is managed through banking arrangements and adequate, though not excessive, cash resources, borrowing arrangements and standby facilities to enable us at all times to have the level of funds available, which are necessary for the achievement of our business and service objectives. At 31 March 2022, we had cash balances of £135.6 million (2021: £84.8 million) and short-term deposits held as investments of £70.2 million (2021: £15.1 million). The increase in cash from the prior year is primarily due to the proceeds from the issuance of a green bond in October 2021.

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 (2021: £100.0 million), which were undrawn at 31 March 2022 (2021: undrawn), to finance capital expenditure and working capital requirements.

In addition, we have access to a further £55.0 million of liquidity facilities (2021: £55.0 million), consisting of a 364 day revolving £32.0 million facility to fund any debt service payments in the event of a liquidity shortfall that would otherwise prevent such payments being made and a 364 day revolving facility of £23.0 million to fund operating and capital maintenance expenditure in the event of a liquidity shortfall.

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 2022. The company is a limited liability company registered in England and Wales and its immediate parent undertaking is Affinity Water Holdings Limited, a company also registered in England and Wales. The directors consider that Daiwater Investment Limited was the ultimate holding and controlling company in the United Kingdom at 31 March 2022. Details of the ownership of the company and the Group structure are set out on pages 184 to 186 of the governance section and note 26 of the financial statements. The address of the principal place of business is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ. The Strategic Report on pages 20 to 117 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 2022. Details of the risks and principal uncertainties facing the company are set out on page 98.

Directors

The directors of the company, together with their periods of office and their biographical details, are shown on pages 124 to 129. The directors who were in office during the year and up to the date of signing the financial statements are summarised below:

Directors

Ann Bishop

Trevor Didcock (Senior Independent Director)

Susan Hooper (resigned 31 March 2022)

Mark Horsley

Jaroslava Korpanec (resigned 28 June 2021 and reappointed on 4 January 2022 as an Alternate Director)

Stuart Ledger

Chris Newsome

Mike Osborne (appointed 1 April 2022)

Justin Read

Tony Roper (resigned 31 March 2022)

Angela Roshier

Roxan Tataru (appointed 1 July 2021)

Ian Tyler (Chair)

Pauline Walsh (stepped down 8 September 2021)

Company Secretary

Sunita Kaushal

Significant events during the year

Details of the significant events that occurred during the year are set out in the Interim Chief Executive Officer's introduction on page 24.

Results and financial performance

Loss for the year was £96.9 million (2021 loss of £43.1 million). The statement of financial position detailed on page 208 shows total equity amounting to £44.3 million (2021: £119.6 million). Further analysis of our financial performance can be found in the Interim Chief Executive Officer's review on page 40 of the Strategic Report.

Information required under the listing rules

During the year, no interest was capitalised by the company (2021: £nil). For disclosures in relation to relevant requirements of the Listing Rules, refer to the Remuneration Report on pages 164 to 183.

Dividends

Our Board has agreed to restrict the payment of dividends throughout AMP7 to enable substantial investments to improve our resilience and protect the environment. Equity dividends of £1.0 million were paid from our non-appointed business (the parts of our business not regulated by Ofwat) during the 2020/21 financial year, in order to service group debt. No equity dividends were paid in 2021/22, further reflecting the shareholders' commitment to re-invest all planned returns from the company's appointed business for the benefit of our customers. The Board is not proposing to recommend the payment of a final dividend for the year (2021: £nil). Our dividend policy is available on our website: affinitywater.co.uk/governance-assurance.

Energy and carbon reporting

Scope 1

The annual quantity of emissions in tonnes of CO_2 equivalent resulting from activities for which the company is responsible (Scope 1) is 6,282 tCO_2e (2021: 5,003 tCO_2e), shown in the table on the next page. Sources of fuel emissions from burning of fossil fuels is the use of Natural Gas used for the heating and cooling of our buildings, and Gas Oil and other fuels used primarily by generators at our water treatment works. Fugitive emissions include ozone used in the disinfection process and waste sludge recycled to land or landfill and refrigerant gases. Fleet fuel emissions result from the combustion of purchased fuel for fleet liveried vehicles.

Scope 2

The annual quantity of emissions in tonnes of CO_2 equivalent resulting from activities for which the company is responsible (Scope 2) is zero tCO_2e (2021: 52,200 tCO_2e), shown in the table on the next page. Purchased total grid electricity from 1 October 2021 is from 100% REGO backed renewable energy (i.e. market based), which we primarily use for the pumping and treatment of water and a small amount for office use.

Total energy consumption

Our total energy consumption including electricity, natural gas, gas oil, self-generated (diesel and solar) and fleet vehicles was 237,298 MWh (2021: 244,565 MWh).

Methodology used

For Scope 1, Scope 2 and selected Scope 3 Greenhouse Gas ('GHG') emissions, we follow the most common approach to calculate GHG emissions from emission sources, which is to take activity data (e.g. units of electricity consumed, or distance travelled) and covert the activity data into tCO_2e. We have reported the common intensity metric for the Water Industry, which is Carbon tCO_2e per Ml, which is our tCO_2e divided by water into supply (Ml).

Greenhouse Gas ('GHG') Emissions statement[1]

GHG emission source	Gross[2] (tCO_2e) 2021/22	Intensity ($kgCO_2e$/Ml) 2021/22	Gross (tCO_2e) 2020/21	Intensity ($kgCO_2e$/Ml) 2020/21
Scope 1	**6,282**	**18.3**	5,003	14.3
Fuel combustion	**1,870**	**5.0**	683	1.9
Process and fugitive emissions	**2,417**	**7.0**	2,420	6.9
Vehicle fleet	**1,996**	**5.0**	1,900	5.4
Scope 2	**–**	**–**	52,200	149.1
Purchased electricity	**–**	**–**	52,200	149.1
Statutory total (Scope 1 & 2)[3]	**6,282**	**18.3**	57,203	163.4
Scope 3	**6,826**	**19.9**	7,198	20.6
Business travel in other vehicles	**109**	**0.3**	81	0.2
Outsourced activities	**2,581**	**7.5**	2,627	7.5
Electricity – transmission and distribution	**4,136**	**12.0**	4,490	12.8
Total gross emissions	**13,109**	**38.2**	64,401	183.9
Net emissions				
Green tariff electricity purchased	**N/A**	**N/A**	(25,200)	N/A
Total annual net emissions	**13,109**	**38.2**	39,201	112.0
Additional Scope 3 emissions	**284,406[4]**	**–**	–	–
Chemical stock used	**277,278**	**780.6**	–	–
Waste from treatment works	**2,433**	**–**	–	–
Embedded emissions				
Below ground asset works	**3,525**	**–**	–	–
Solar PV	**825[5]**	**–**	–	–

1 We report our GHG emissions following the 2013 UK Government Environmental Reporting Guidance and using the UKWIR Carbon Accounting Workbook v16 based on 2021 UK Government Conversion Factors for Company Reporting. We have included emissions within the direct management responsibility of the company. This is consistent with our financial reporting boundary with the exception of scope 3 emissions, which are off-balance sheet emissions. Significant scope 3 emissions have been quantified for outsourced data support and emissions from the distribution and transmission of grid electricity. The data has been externally verified as part of our regulatory reporting requirements. All emissions reported relate to emissions in the United Kingdom and offshore area.

2 We measure our gross GHG emissions in tonnes of carbon dioxide equivalent ('tCO2e').

3 Statutory carbon reporting disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

4 Taken from chemical stock data

5 Average of calculated embedded carbon in solar PV panels based on range of 750-900 tCO_2e/kWp

Scope 3

We are committed to reducing carbon emissions both in our operations and in the delivery of our capital programmes. For 2021/22 we are reporting on embedded carbon as part of the shadow reporting requested by Ofwat in preparation for mandatory reporting in 2022/23.

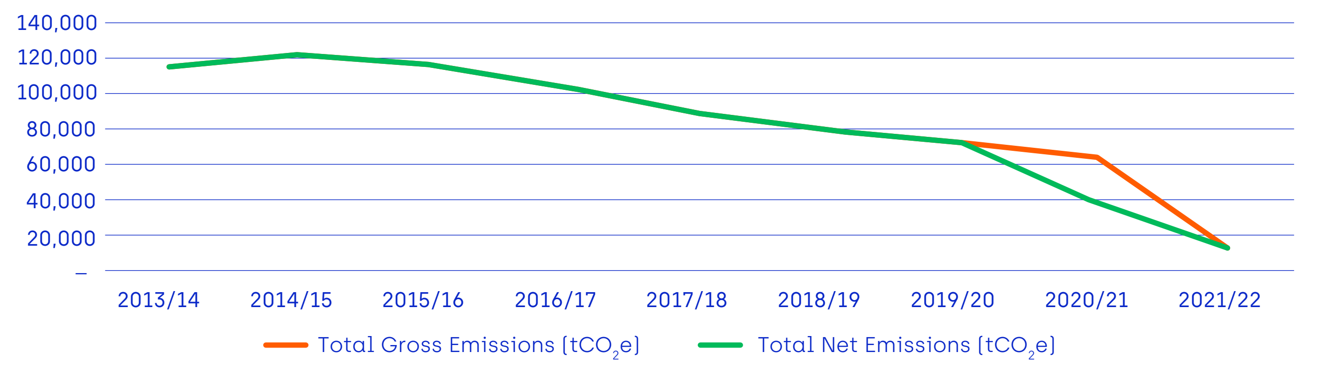
We have calculated the total quantity of GHG emissions, in tCO_2e (embedded carbon), for below ground asset installations and solar PV where projects have been completed in 2021/22.

To generate a more comprehensive overview of our carbon footprint we have extended our reporting of Scope 3 emissions to include chemical use and waste. Our operational emissions inventory already includes Scope 3 emissions for business travel, outsourced activities and purchased electricity transmission and distribution. For ease of reference these activities are included in the above table as additional Scope 3 GHG emissions for the 2021–22 period and are presented along with carbon figures for capital works.

Where it has not been possible to report on embedded carbon for other construction and maintenance activities, we have undertaken a review to ensure we understand the scope of this work and identify necessary steps to support reporting in future years.

Directors' Report continued

Total Gross Emissions (tCO_2e)



The company supplies water to 3,830,000 consumers in our supply area (2021: 3,780,000). The Covid-19 pandemic developed rapidly in 2020 resulting in an increased demand for water we supply due to the impact of the virus and the hot summer of 2020. The way we operate also had to change with the majority of office-based staff working from home, and just a small number of employees at our office locations. Our front-line delivery teams have continued to work at our operational sites and in the community.

We are currently piloting ways to reduce whole life emissions (both operational and embodied) of several large capital projects. There is significant evidence that to evaluate a project through a carbon lens finds efficiencies in both carbon and costs, which we aim to achieve through the use of the PAS2080 standard. We are also finding opportunities for wider benefits such as environmental net gain through our carbon reduction projects.

Our plans include moving to a greener vehicle fleet, to develop significant renewable energy and to be part of the water industry's commitment to plant 11 million trees. In addition to this, we are working closely with our supply chain partners to reduce carbon emissions (Scope 3) from our daily activities and planned investment, both from the materials and energy we use.

This year has seen a decrease of 79.64%, of our gross greenhouse gas emissions compared to last year. Scope 1 Direct Emissions have increased from 5,003 tCO_2e in the prior year to 6,282 tCO_2e in 2021/22.

There has been an increase of 22.58% in natural gas usage from last year. This is due to higher proportion of estimated reads and slight increase of actual consumption, as we see more people working from offices as Covid-19 recedes.

There has been an increase in gas oil consumption against prior year of 66.57%, due to faulty generators being repaired and increased usage during winter peak load times.

Electricity usage for pumping and treating water accounts for 0.00% of our gross emissions, due to the green tariff.

Electricity consumption and emissions from outsourced activities, administration services and courier mileage have been included and in line with the Ofwat net zero road map, it is envisaged this will continue to expand.

There has also been increases in the conversion factors cross most lines due to changes in government factors, which are in the BEIS 21 methodology paper, which details the revisions due to new/improved data while using existing calculation methodologies, and in the UKWIR CAWv16. The water distributed input has decreased by 1.92%, which is used in the intensity measure ($kgCO_2e/Ml$). We used the WKWIR CAWv16 to calculate emissions.

There has been a 6.36% increase in petrol and diesel consumption relating to transport owned by the company, which contributes to our total emissions.

This compares to an increase in emissions from transport by public transport and private vehicles, this is 0.83% of our total net emissions.

We have also included in our Scope 3 emissions:

- Water treatment waste recycled to land;
- Water treatment waste sent to landfill; and
- Other wastes including scrap metals, plastics, cardboard and glass.

During 2021/22, we replaced a number of our borehole, booster and high lift pumps. We have also been optimising one of our main water treatment works to use the most efficient sources where possible. At another of our main water treatment works we have completed ozone upgrades which has reduced the ozone demand thereby reducing the power consumption of the generators. We have also installed new pumps and refurbished existing pumps across multiple sites to improve efficiency.

We have employed microthermal pump monitoring at three of our pump sets to identify the real time pump efficiency and to ensure that we are running in the most energy efficient way. Energy savings of 2–4% have been achieved and we are looking to continue the roll out of these to other sites.

We have also looked for other ways to improve site efficiency such as the removal of UV strainers, which cause system pressure losses, this is being rolled out across six sites across the business with a view to increasing this number further.

Additionally, by working with Datumpin, and other suppliers, we have been able to make better use of the data that we have on our sites, to identify the impact of small changes on the operation of the site.

The energy savings of this work are less easy to quantify but it has led to reduced chemical consumption during Ion Exchange regeneration and a lower waste volume needing to be taken away.

We have also invested in our energy data by developing two new software tools to analyse energy performance at site, community and company level as well as detailed pump level. These tools have helped create a programme of works set to deliver £500k of energy benefit in financial year 2022/23.

Also, for the first time, we have invested in Energy Management and net zero training for Operational and Asset teams to develop a foundation level of knowledge and help embed a culture of energy and carbon efficiency.

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 member of UK Water Industry Research ('UKWIR') and participates widely in, and benefits from, its research programme. The UKWIR programme relating to Affinity Water is currently divided into the following topics: drinking water quality and health; toxicology; water resources; climate change; water mains and services; leakage and metering; and regulatory issues.

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. In addition, the company carried out more specific research during the year in the fields of process performance and energy optimisation, novel technologies for plumbosolvency control, monitoring of biological risks in the network and risks to water quality when changing sources of supply.

Innovation

During 2021/22, we paid £1.1 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, and in April 2021, Ofwat announced 11 winning projects, two of which we had led on – Seagrass Seeds of Recovery and Smarter Tanks, both of which will improve the efficiency and resilience of our water supplies.

The Seagrass project uses nature itself to enhance coastal communities' ecosystems. Planting and restoring seagrass meadows enhance the stability of the coastal zone, locking carbon into the seabed at a rapid rate, improving water quality and creating habitat for hundreds of thousands of small animals. This innovative project will provide a blueprint for upscaling the restoration of seagrass to enhance the resilience of the estuarine and coastal waters of the Affinity Water and Anglian Water supply regions in Essex and Suffolk.

The Smarter Tanks project will develop a 'business model canvas' to harness real-time monitoring and control solutions for existing water tanks and towers to improve efficiency when water is needed most such as during droughts. The project aims to make the most use of existing water storage assets in a new way in order to build network resilience and pave the way for the industry to explore new solutions further. This project is due to be completed early in 2022/23.

Political contributions

No political contributions were made during the year (2021: £nil), in accordance with the company's policy of not making political contributions.

Financial instruments disclosures

Details are included within risk number 15 on page 111 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, 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 whilst 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 86 for details in our Section 172(1) statement on how directors have engaged with employees.

Engagement with other stakeholders

See page 86 for details in our Section 172(1) statement on how directors have engaged with suppliers, customers and other stakeholders.

Directors' Report continued

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 on page 44.

Corporate governance

The company's statement on corporate governance, including information required by the Disclosure and Transparency Rules, can be found in the Corporate governance report on pages 132 to 146 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 were no significant events that took place after the reporting period.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as 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 page 112 as well as consideration of the company's budgeted cash flows, short and long-term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

While the current economic environment, as a result of the impact of Covid-19, supply chain cost pressures and the energy price crisis, is clearly challenging, the company has in place suitable mitigating actions to ensure that even under a severe but plausible downside scenario, the company is not forecasting any covenant breaches over the going concern period. Details of the company's available liquidity, including undrawn committed borrowing facilities, are included in the liquidity risk section of note A4. There have been no events after the reporting period significantly affecting liquidity headroom.

To assess the severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These include both increased costs from the financial impacts of operational events, including the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 6% of debt not currently subject to loss allowance provision. The base case has taken into consideration the impact of Covid-19, supply chain cost pressures and the energy price crisis on the company, and reprofiled capital expenditure from projects delayed during the first year of AMP7 into later years of AMP7.

Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials.

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, is fair, balanced and understandable and provides 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 Auditor

In accordance with Section 485 of the Companies Act 2006,a resolution to reappoint PricewaterhouseCoopers LLP will be proposed at the forthcoming AGM.

By order of the Board

Sunita Kaushal
General Counsel and Company Secretary

12 July 2022

Registered Office:

Affinity Water Limited
Tamblin Way
Hatfield
Hertfordshire

Financial Statements

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 2022 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, comprising 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 2022; 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, which include a description of the significant accounting policies.

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.

There have been a number of changes to our key audit matters for the year ended 31 March 2022, as set out in further detail below. We have also specifically set out our consideration of the impact of climate change on the audit.

In planning our audit, we have 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.

Whilst it is acknowledged that the physical and transition risks posed by climate change have the potential to impact the company over the medium to long-term, in particular given the commitment to achieve net zero carbon from operations by 2030, management has assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2022.

However, we have 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.

We have also considered and obtained comfort over the consistency of the disclosures in relation to climate change made in the other information within the Annual Report with both the financial statements and the knowledge we obtained from our audit.

Overview

Audit scope

- The company has one finance function, with the audit being carried out by one team.
- In scoping our audit, with reference to our risk assessment, we identified and included all material financial statement line items within the scope of our audit procedures.

Key audit matters

- Accuracy of the measured income accrual.
- Adequacy of loss allowance for trade receivables.
- Assessment of cost capitalisation.

Materiality

- Overall materiality: £3.8 million (2021: £3.9 million) based on 3.5% of the earnings before interest, tax, depreciation and amortisation ('EBITDA') (2021: 3.5% of the three year average EBITDA).
- Performance materiality: £2.9 million (2021: £2.9 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.

'Assessment of cost capitalisation' is a new key audit matter this year. 'Impact of the Covid-19 pandemic', which was a key audit matter last year, is no longer included because the impact of Covid-19 was not considered to be an area of most significance to our audit, with the level of audit effort spent considering and responding to this risk on the financial reporting judgements or estimates, and the execution of the audit, having reduced compared to the prior year. Otherwise, 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 148 (Audit, Risk and Assurance Committee Report), page 211 (accounting policies) and page 228 (note 12). A measured income accrual of £41.0 million (31 March 2021: £36.7 million) has been recognised relating to revenue from the provision of water services to metered household customers that had not been billed at the year end date. The determination of the measured income accrual impacts directly on both reported revenue and operating 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 small geographical groupings of customers. Given the range of factors underlying this estimate, there is a risk that the measured income accrual and associated revenue could be materially misstated.	The measured income accrual is a manual calculation prepared using data from the Hi-Affinity billing system. We understood the methodology and ensured that it had been applied consistently with previous years. We also tested the mechanics of the spreadsheet used to calculate the measured income accrual. In respect of the integrity of the data within Hi-Affinity, we tested the design and operating effectiveness of key controls within the revenue and receivables cycle, including the reconciliation of reports produced from the Hi-Affinity billing system and the revenue journals posted to the general ledger, and the quarterly review of tariff changes made in the Hi-Affinity billing system. We also validated the accuracy of the data within Hi-Affinity by agreeing a sample of meter readings to the system and tracing actual consumption to the bills raised. To assess the overall reasonableness of the accrual, we performed an independent roll forward of the accrual recognised at 31 March 2021 to calculate an expected accrual at 31 March 2022, 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 2021. We also compared the billing subsequent to 31 March 2022 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 148 (Audit, Risk and Assurance Committee Report), page 211 (accounting policies), page 228 (note 12) and page 245 (note A4). The loss allowance for trade receivables of £33.0 million (31 March 2021: £34.0 million) was calculated by applying a range of different percentages to trade receivables based on their respective ageing, with higher percentages applied to those categories of trade receivables which are considered to be of greater risk. Some customers have difficulty paying their bills or, in certain instances, choose not to pay them. As a result, given there are limited steps that a water company can take to recover debt from household customers, there is an ongoing risk of aged trade receivables not being collected, with this risk being heightened by the economic impact of the increased cost of living being experienced by customers. In order to account for the increased risk of credit loss as a result of the increased cost of living, consistent with the assessment performed in respect of the impact of Covid-19 in the prior year, management have made use of a third-party tool (Acorn consumer classification) to segment their existing customers into demographic segments. These demographic segments were then grouped into three risk buckets (low, medium and high) and allocated a percentage reflecting management's estimate of the likelihood of potential default. The weighted average across the three buckets was then used to calculate an incremental loss allowance for trade receivables to reflect the increased risk caused by the increased cost of living. Given the quantum of trade receivables, and the range of assumptions used in preparing the loss allowance for trade receivables, there is a risk that this estimate could be materially misstated.	We reviewed the methodology for calculating the underlying loss allowance for trade receivables and ensured it had been consistently applied with the prior year. We also understood and tested the mechanics of the spreadsheet used to calculate the initial loss allowance, the measurement basis (measured and unmeasured) and the methodology applied to calculate provision rates and agreed that they are consistent with the prior year. To ensure the appropriate classification of customers into sub-categories to apply the historical expected credit loss methodology, we selected a sample of trade receivables and tested that they have been allocated the appropriate provision rate based on ageing, customer type and measurement basis. In addition, we compared the actual rates used in the calculation of the loss allowance to prior year rates and reviewed the level of bad debt write offs which occurred during the year ended 31 March 2022 to assess the ability of management to prepare appropriate estimates. For the additional loss allowance recognised in relation to the increased cost of living, we assessed management's use of the Acorn consumer classification system and considered this to be a reasonable basis for the assessment performed. We also reviewed the demographic groupings assigned to the household customers and the subsequent risk grouping performed by management. We applied sensitivity analysis on this additional adjustment to consider the risk of this being materially understated or overstated, in light of both cash collection rates and the current economic outlook. Based on the procedures performed, we did not identify any material differences within the loss allowance for trade receivables. We also assessed the disclosures in respect of the loss allowance for trade receivables and consider these to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Assessment of cost capitalisation Refer to page 148 (Audit, Risk and Assurance Committee Report), page 211 (accounting policies), page 224 (note 6) and page 245 (note A4). The additions to assets under construction during the year amounted to £136.0 million (year ended 31 March 2021: £128.1 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 spend can be judgemental and has a direct on profitability in any given year. The key judgement is management's assessment of what constitutes enhancement compared to maintenance expenditure and the allocation of overheads. Given the magnitude of capital spend, there is a risk that incorrect classification could give rise to a material misstatement.	We reviewed the process for allocating costs to capital projects and are satisfied that this allocation was made on an appropriate basis and is in line with the company's capitalisation policy. We selected a sample of items capitalised in the year and ensured these were consistent with the company's accounting policy and were appropriately capitalised in line with IAS 16. We challenged the assumptions and judgements made in allocating overheads to capital projects, through understanding the nature of activities performed. We also performed a review of a number of capital projects, comparing their current status to that of the approved management plan to understand the nature of the work being performed, whether the status of the project is in line with the initial approved budget and the anticipated timelines set out in the plan. We then used this information to challenge, where appropriate, the accounting treatment of these projects as at 31 March 2022. Overall, we consider the costs capitalised as at 31 March 2022 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.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£3.8 million (2021: £3.9 million).
How we determined it	Based on 3.5% of the earnings before interest, tax, depreciation and amortisation ('EBITDA') (2021: 3.5% of the three year average EBITDA).
Rationale for benchmark applied	We have used EBITDA as this is the measure that management focus on internally within their reporting. The use of EBITDA is also consistent with the prior year, though a three year average was used in the prior year due to the impact of Covid-19 on profitability.

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% (2021: 75%) of overall materiality, amounting to £2.9 million (2021: £2.9 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 £0.2 million (2021: £0.2 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent Auditors' report
to the members of Affinity Water Limited

continued

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;
- Assessing the accuracy of the cash flow forecast prepared in the prior year so as to obtain assurance of the ability of management to prepare accurate forecasts;
- Assessing the downside scenario which has been used to sensitise the base case model, including consideration of the underlying assumptions; and
- Reviewing management's analysis of both liquidity and covenant compliance to ensure there is sufficient liquidity and no forecast covenant breaches during the going concern period.

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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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 2022 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 auditors of premium listed companies. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group 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.

Independent Auditors' report to the members of Affinity Water Limited

continued

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to industry regulation, including the requirements of The Water Services Regulation Authority ('Ofwat'), health and safety regulation (including the requirements of The Health and Safety at Work etc Act 1974) and environmental regulation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Listing Rules, UK tax legislation, pensions legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, in doing so increasing overall profitability, and management bias within accounting estimates, in particular the potential manipulation of the measured income accrual, loss allowance for trade receivables or the extent of costs capitalised. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and the company's legal team, including inquiring of known or suspected instances of non-compliance with laws and regulation and fraud, and review of board minutes and internal audit reports;
- Discussions with the General Counsel and Head of Ethics & Compliance to discuss both the litigation report and summary of whistleblowing matters arising;
- Challenging assumptions made by management when preparing accounting estimates, in particular those that involve the assessment of future events, which are inherently uncertain – the key estimates determined in this respect are those relating to the measured income accrual and loss allowance for trade receivables; and
- Identifying and testing journal entries posted, such as those with unusual account combinations or those posted by senior management.

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

13 July 2022

Income statement
for the year ended 31 March 2022

(Registered Number 02546950)

	Note	2022 £000	2021 (restated) £000
Revenue	1	**319,747**	286,782
Cost of sales		**(258,553)**	(243,634)
Gross profit		**61,194**	43,148
Administrative expenses		**(38,159)**	(40,621)
Impairment losses on financial and contract assets	2.1	**(7,444)**	(8,318)
Other operating income	2.2	**18,972**	17,657
Operating profit	2	**34,563**	11,866
Finance income	4	**16,043**	15,770
Finance costs	4	**(102,873)**	(48,621)
Fair value loss on inflation swaps	4	**(31,295)**	(32,452)
Net finance costs	4	**(118,125)**	(65,303)
Fair value gain on energy swaps		**27,988**	–
Loss before tax		**(55,574)**	(53,437)
Income tax (expense)/credit	5	**(41,331)**	10,311
Loss for the financial year		**(96,905)**	(43,126)

All results of the company in the current year and prior year are from continuing operations.

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 211 to 212.

The notes on pages 211 to 255 are an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 March 2022

(Registered Number 02546950)

	Note	2022 £000	2021 (restated) £000
Loss for the financial year		**(96,905)**	(43,126)
Other comprehensive income/(expense) for the year which will not be reclassified to profit or loss:			
Re-measurements of post-employment benefit assets	10	**28,749**	(32,162)
Deferred tax (charge)/credit on items that will not be reclassified	5	**(7,187)**	6,111
Other comprehensive income/(expense) for the year, net of tax		**21,562**	(26,051)
Total comprehensive loss for the year		**(75,343)**	(69,177)

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 211 to 212.

The notes on pages 211 to 255 are an integral part of these financial statements.

Statement of financial position as at 31 March 2022

(Registered Number 02546950)

	Note	2022 £000	2021 (restated) £000
Assets			
Non-current assets			
Property, plant and equipment	6	**1,615,571**	1,540,949
Right-of-use assets	7	**9,440**	9,508
Intangible assets	8	**43,266**	45,783
Investments	9	**100**	100
Retirement benefit surplus	10	**104,247**	74,532
Derivative financial instruments	11	**7,342**	–
Other receivables	12	**–**	184
		1,779,966	1,671,056
Current assets			
Inventories	13	**4,348**	4,080
Derivative financial instruments	11	**20,646**	–
Trade and other receivables	12	**103,821**	91,793
Short-term investments	9	**70,179**	15,132
Cash and cash equivalents	14	**135,604**	84,766
		334,598	195,771
Total assets		**2,114,564**	1,866,827
Equity and liabilities			
Equity			
Share capital	15	**30,506**	30,506
Share premium	15	**1,400**	1,400
Capital contribution reserve	15	**30,150**	30,150
(Accumulated losses)/retained earnings		**(17,753)**	57,590
Total equity		**44,303**	119,646
Liabilities			
Non-current liabilities			
Trade and other payables	16	**247,074**	150,806
Borrowings	17	**1,275,788**	1,095,079
Lease liabilities	18	**6,329**	6,016
Derivative financial instruments	11	**106,818**	45,925
Deferred tax liabilities	19	**231,530**	183,011
Provisions for other liabilities and charges	20	**3,107**	3,396
		1,870,646	1,484,233
Current liabilities			
Trade and other payables	16	**192,817**	255,492
Lease liabilities	18	**3,317**	3,667
Current tax liabilities		**3,481**	3,611
Provisions for other liabilities and charges	20	**–**	178
		199,615	262,948
Total liabilities		**2,070,261**	1,747,181
Total equity and liabilities		**2,114,564**	1,866,827

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 211 to 212.

The notes on pages 211 to 255 are an integral part of these financial statements. The statutory financial statements on pages 206 to 255 were approved by the Board of directors and were signed and authorised for issue on 12 July 2022 on its behalf by:

Stuart Ledger
Chief Executive Officer

Ian Tyler
Chairman

Statement of changes in equity for the year ended 31 March 2022

(Registered Number 02546950)

	Note	Share capital £000	Share premium £000	Capital contribution reserve £000	Retained earnings/ accumulated losses) £000	Total equity £000
Balance as at 1 April 2020 as previously reported		26,506	1,400	30,150	128,918	186,974
Impact of restatement		–	–	–	(1,151)	(1,151)
Balance as at 1 April 2020 (restated)		26,506	1,400	30,150	127,767	185,823
Loss for the year as previously reported		–	–	–	(51,278)	(51,278)
Impact of restatement		–	–	–	8,152	8,152
Other comprehensive loss		–	–	–	(26,051)	(26,051)
Total comprehensive loss (restated)		–	–	–	(69,177)	(69,177)
Issuance of share capital	15	4,000	–	–	–	4,000
Dividends	21	–	–	–	(1,000)	(1,000)
Total transactions with owners recognised directly in equity		4,000	–	–	(1,000)	3,000
Balance as at 31 March 2021 (restated)		30,506	1,400	30,150	57,590	119,646
Balance as at 1 April 2021		**30,506**	**1,400**	**30,150**	**57,590**	**119,646**
Loss for the year		–	–	–	(96,905)	(96,905)
Other comprehensive income		–	–	–	21,562	21,562
Total comprehensive loss		**–**	**–**	**–**	**(75,343)**	**(75,343)**
Dividends	21	–	–	–	–	–
Total transactions with owners recognised directly in equity		**–**	**–**	**–**	**–**	**–**
Balance as at 31 March 2022		**30,506**	**1,400**	**30,150**	**(17,753)**	**44,303**

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 211 to 212.

The notes on pages 211 to 255 are an integral part of these financial statements.

Statement of cash flows
for the year ended 31 March 2022

(Registered Number 02546950)

	Note	2022 £000	2021 (restated) £000
Cash flows from operating activities			
Cash generated from operations	22.1	**101,280**	98,364
Interest paid		**(41,807)**	(42,337)
Tax (paid)/received		**(130)**	377
Net cash inflow from operating activities excluding capital contributions		**59,343**	56,404
Capital contributions		**25,771**	56,407
Net cash inflow from operating activities		**85,114**	112,811
Cash flows from investing activities			
Investment in short-term deposits		**(55,046)**	10,070
Purchases of property, plant and equipment		**(131,288)**	(125,779)
Proceeds from sale of property, plant and equipment		**435**	1,061
Purchases of intangible assets		**(8,608)**	(11,339)
Interest received		**16,886**	12,986
Net cash outflow from investing activities		**(177,621)**	(113,001)
Cash flows from financing activities			
Proceeds from loan from subsidiary undertaking		**146,994**	–
Principal elements of lease payments	18	**(3,649)**	(3,631)
Issuance of share capital	15	**–**	4,000
Dividends paid	21	**–**	(1,000)
Net cash inflow/(outflow) from financing activities		**143,345**	(631)
Net increase/(decrease) in cash and cash equivalents		**50,838**	(821)
Cash and cash equivalents at the beginning of the year		**84,766**	85,587
Cash and cash equivalents at end of year	14	**135,604**	84,766

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included on pages 211 to 212.

The prior year has also reclassified £6,438,000 of interest received on inflation swaps to interest received. Previously, this was netted off against interest paid. Further details are included on page 212.

The notes on pages 211 to 255 are an integral part of these financial statements.

Notes to the financial statements – accounting policies

Basis of preparation

These financial statements have been prepared under the historical cost convention, modified by revaluation of financial assets and financial liabilities held at fair value through profit and loss, and in accordance with the Companies Act 2006 and Financial Reporting Standard 101: 'Reduced disclosure framework' ('FRS 101') as issued by the Financial Reporting Council.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions.

On 31 December 2020, EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board. In preparing these financial statements in accordance with FRS 101, the company financial statements transitioned to UK-adopted international accounting standards (as described above) on 1 January 2021. There is no impact on recognition, measurement or disclosure in the period reported as a result of this change.

Going concern

The directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements as 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 page 112 as well as consideration of the company's budgeted cash flows, short and long-term forecasts and ability to generate future revenues, related assumptions and available debt facilities.

While the current economic environment, as a result of the impact of Covid-19, supply chain cost pressures and the energy price crisis, is clearly challenging, the company has in place suitable mitigating actions to ensure that even under a severe but plausible downside scenario, the company is not forecasting any covenant breaches over the going concern period. Details of the company's available liquidity, including undrawn committed borrowing facilities, are included in the liquidity risk section of note A4. There have been no events after the reporting period significantly affecting liquidity headroom.

To assess the severe but plausible downside scenario, management have considered a base case scenario that reflects the current market conditions in the economy and have applied a series of severe downside assumptions. These include both increased costs from the financial impacts of operational events, including the impact of a severe cold weather event over the winter period, and an increase in bad debt representing approximately 6% of debt not currently subject to loss allowance provision.

The base case has taken into consideration the impact of Covid-19, supply chain cost pressures and the energy price crisis on the company, and reprofiled capital expenditure from projects delayed during the first year of AMP7 into later years of AMP7.

Due to the nature of the regulated water company's business, the directors consider it appropriate to place reliance on projected financials.

Principal accounting policies

The principal accounting policies 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

No new standards became applicable for the current reporting year.

Prior year restatements as a result of error and change in presentation

1. Treatment of configuration and customisation costs in a cloud computing arrangement

In April 2021, the IFRS Interpretations Committee ('IFRIC') agenda decision on the treatment of configuration and customisation costs in a cloud computing arrangement was ratified by the International Accounting Standards Board. As such, the company has changed its accounting policy from capitalising all costs directly attributable to configuration and customisation in a cloud computing arrangement, to expensing such costs if the company does not have control of the developed software.

This change in accounting policy due to the IFRIC agenda decision has led to a prior year restatement of the income statement, increasing the loss by £1,464,000, and a reduction in total assets in the statement of financial position as at 31 March 2021 of £2,895,000 as shown in the table on the following page.

The change in accounting policy has also impacted the statement of changes in equity, resulting in a reduction in the opening retained earnings as at 1 April 2020 by £1,151,000, shown in the table on the following page, and a restatement of the loss for the year to 31 March 2021, increasing the loss by £1,464,000, as above.

The change in accounting policy has also impacted the statement of cash flows, decreasing net cash inflow from operating activities by £2,148,000 and decreasing net cash outflow from investing activities by the same amount.

2. Debit Value Adjustment on inflation swap derivative financial instruments

The fair value of derivative financial instrument liabilities now 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, which is consistent with IFRS 13: 'Fair value measurement'.

The omission of the DVA in the prior year was an error and has led to a prior year restatement of the income statement, reducing the loss by £9,616,000, and decreasing the total liabilities in the statement of financial position as at 31 March 2021 by the same amount as detailed on the following page. There has not been a restatement made as at 31 March 2020 as the DVA would not have been material.

This omission has also impacted the statement of changes in equity, to reflect the reduced loss of £9,616,000, but has not had any impact on the statement of cash flows.

Notes to the financial statements – accounting policies continued

Prior year restatements as a result of error and change in presentation continued

3. Trade receivables credit balances

The prior year balance sheet has been restated to reclassify £7,592,000 of credit balances on customers' accounts to 'Payments received in advance' in note 16. Previously this was incorrectly netted off against trade receivables in note 12.

As a result, net assets and net liabilities in the statement of financial position have both increased by £7,592,000, as shown on the following page. The opening position as at 31 March 2020 has not been restated.

This restatement has not had any impact on the income statement, statement of changes in equity or statement of cash flows.

4. Interest receivable on inflation swaps

There has been a reclassification in the statement of cash flows of £6,438,000 net interest received on inflation swaps to interest received. Previously, this was incorrectly netted off against interest paid.

As a result, net cash inflow from operating activities has decreased by £6,438,000, and net cash outflow from investing activities has decreased by the same amount.

This reclassification has not had any impact on the income statement, statement of financial position or statement of changes in equity.

Income statement (extract)	31 March 2021 £000	Increase/ (decrease) due to adjustment 1 £000	Increase/ (decrease) due to adjustment 2 £000	31 March 2021 (restated) £000
Administrative expenses	(38,918)	(1,703)	–	(40,621)
Fair value loss on inflation swaps	(44,218)	–	11,766	(32,452)
Tax credit	12,222	239	(2,150)	10,311
Loss for the financial year	**(51,278)**	**(1,464)**	**(9,616)**	**(43,126)**

The £1,703,000 administrative expenses is made up of £2,148,000 cost of ERP system, less £445,000 write back of depreciation on ERP system.

Statement of financial position (extract)	31 March 2021 £000	Increase/ (decrease) due to adjustment 1 £000	Increase/ (decrease) due to adjustment 2 £000	Increase/ (decrease) due to adjustment 3 £000	31 March 2021 (restated) £000
Intangible assets	48,678	(2,895)	–	–	45,783
Trade and other receivables	84,201	–	–	7,592	91,793
Total assets	**1,862,130**	**(2,895)**	**–**	**7,592**	**1,866,827**
Retained earnings	50,589	(2,615)	9,616	–	57,590
Trade and other payables	247,900	–	-	7,592	255,492
Derivative financial instruments	57,691	–	(11,766)	–	45,925
Deferred tax liabilities	181,141	(280)	2,150	–	183,011
Total equity and liabilities	**1,862,130**	**(2,895)**	**–**	**7,592**	**1,866,827**

Statement of financial position (extract)	31 March 2020 £000	Increase/ (decrease) due to adjustment 1 £000	31 March 2020 (restated) £000
Intangible assets	45,768	(1,192)	44,576
Total assets	**1,840,167**	**(1,192)**	**1,838,975**
Retained earnings	128,918	(1,151)	127,767
Deferred tax liabilities	**198,644**	**(41)**	**198,603**
Total equity and liabilities	**1,840,167**	**(1,192)**	**1,838,975**

New standards, amendments and interpretations not yet adopted

There are no new standards and interpretations, which are not yet effective and have not been early adopted by the company, that will have a material effect on future years.

Disclosure exemptions

As permitted by FRS 101, the company has taken advantage of the following disclosure exemptions available under that standard in the preparation of these financial statements:

- Paragraph 38 of IAS 1: 'Presentation of financial statements' comparative information requirements in respect of:
  - Paragraph 79(a)(iv) of IAS 1: 'Presentation of financial statements';
  - Paragraph 73(e) of IAS 16: 'Property, plant and equipment'; and
  - Paragraph 118(e) of IAS 38: 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS 1: 'Presentation of financial statements':
  - 16 (statement of compliance with all IFRS); and
  - 38B–D (additional comparative information)
- Paragraphs 40A–D of IAS 1: 'Presentation of financial statements' in respect of prior year restatements
- Paragraph 17 of IAS 24: 'Related party disclosures' (key management compensation)
- The requirements in IAS 24: 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Critical accounting estimates

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Measured income accrual

The company records an accrual for measured consumption of water that has not yet been billed (refer to note 12). The accrual is estimated using a defined methodology based upon weighted average water consumption by tariff, which is calculated based upon historical information. Revenue for the year ended 31 March 2021 included a measured income accrual of £36,719,000. The value of billing recognised in the year ended 31 March 2022 for consumption in the prior year was £39,431,000.

This resulted in a increase of £2,712,000 in the current year's revenue due to the under-estimation of the prior year's revenue. This represented 0.85% of 2021/22 revenue and is within acceptable tolerance for accounting estimates.

Non-household wholesale revenue

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 at 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.

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 and resultantly has accounted for an additional bad debt charge given the increase in the cost of living currently impacting our customers. This was calculated by applying an additional loss allowance provision to each segment of our customer base, based on the likely impact to that segment. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. Each 1% increase in the loss allowance for trade receivables and contract assets across each aged debt bracket would result in an additional bad debt charge of £373,000 (2021: £343,000) and a corresponding reduction in net assets. Each 1% decrease in the loss allowance for trade receivables and contract assets across each aged debt bracket would result in a reduction in the bad debt charge of £373,000 (2021: £343,000) and corresponding increase in net assets.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on management's judgement and experience, which include the knowledge and research of the company's dedicated asset management teams. 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 2022 is £1,615,571,000 (2021: £1,540,949,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £1,164,882,000 (2021: £1,104,713,000) and if they were 10% longer, the carrying amount would be £1,747,322,000 (2021: £1,657,069,000).

Based on the current useful lives, the carrying amount of intangible assets, excluding goodwill, at 31 March 2022 is £28,305,000 (2021 (restated): £30,822,000). If the useful lives of the assets were 10% shorter, the carrying amount would instead be £25,150,000 (2021 (restated): £29,666,000) and if they were 10% longer, the carrying amount would be £31,460,000 (2021 (restated): £37,768,000).

Notes to the financial statements – accounting policies continued

Critical accounting estimates continued

The above estimates have been calculated using the average useful life for each class of asset and assumes that the assets in each category are midway through their useful life.

Defined benefit pension plan

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, inflation, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions (refer to note A5) reflect historical experience and current trends and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants. There are no restrictions to the realisability of the surplus relating to the defined benefit section of the pension plan; therefore, no adjustment has been made to the retirement benefit surplus recognised in accordance with International Financial Reporting Interpretations Committee 14: 'The limit on a defined benefit asset, minimum funding requirements and their interaction'. A sensitivity analysis has been performed based on changing different assumptions – see note A5 for the impact of changes in assumptions used.

Critical accounting judgements in applying the entity's accounting policies

The preparation of financial statements also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity are disclosed below.

Revenue recognition

IFRS 15 requires revenue to be recognised in line with the satisfaction of performance obligations identified within contracts between an entity and its customers, at an amount that reflects the transaction price allocated to each performance obligation. Particular challenges exist within the water industry as formal written contracts do not exist for most transactions with customers. Contracts are instead implied through statute and regulation. Judgement is, therefore, required in identifying the services contained within the contract and the customer with whom the contract is entered into, which in turn impacts on how the performance obligations are considered and, therefore, revenue recognised.

Refer to note 1 for the amount of revenue recognised in the income statement.

Grants and contributions

Grants and contributions (consisting of contributions for 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 diversions, requisitioned mains/extensions and infrastructure charges are recognised over a period of time. Contributions received in respect of connections charges are recognised immediately in the income statement. Refer to note A3 for further detail on our accounting policies in relation to these. Refer to note 1 for the amount of revenue recognised in the income statement.

Included within grants and contributions are contributions received relating to the HS2 rail programme, which crosses our supply area. These are shown within capital contributions in the statement of cash flows.

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. There has been no revaluation of assets during 2021/22 as a result of climate change.

The company established a Green Finance Framework during the year and issued its first green bond in October 2021 to finance projects which will adapt to and mitigate the effects of climate change.

Notes to the financial statements

1. Revenue

1.1 Disaggregation of revenue from contracts with customers

	2022 £000	2021 £000
Timing of revenue recognition – at a point in time		
Unmeasured supplies	**100,115**	96,981
Measured supplies	**155,232**	144,124
Non-household wholesale revenue	**51,111**	34,732
Connection charges	**7,989**	7,904
	314,447	283,741
Timing of revenue recognition – over time		
Requisitioned mains/extensions	**573**	576
Diversions	**3,382**	1,201
Infrastructure charges	**1,145**	1,111
Other	**200**	153
	5,300	3,041
	319,747	286,782

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:

	2022 £000	2021 £000
Net trade receivables	**33,840**	24,505
Contract assets		
Unbilled accrual for metered customers – household customers	**40,847**	36,742
Unbilled accrual for metered customers – non-household customers	**3,506**	2,710
Contract liabilities		
Payments received in advance – household water supplies	**46,746**	41,217
Payments received in advance – non-household water supplies	**–**	2,948
Deferred income – water supplies	**207**	138
Deferred income – other	**622**	1,004
Deferred grants and contributions	**252,772**	154,175
Payments received in advance – grants and contributions	**27,023**	108,100

'Payments received in advance – grants and contributions' in the table above relate to contributions received from developers where the asset is still work in progress and not yet being depreciated. Once the asset is complete, the contribution is moved from 'payments received in advance – grants and contributions' to 'deferred grants and contributions' and amortised, to ensure the accounting treatment is consistent.

Notes to the financial statements continued

1. Revenue continued

1.2 Assets and liabilities related to contracts with customers continued

Significant changes in contract assets and liabilities

Up to 31 March 2022, the company had been reimbursed £154,187,000 (2021: £128,376,000) for its costs incurred in relation to the HS2 rail project, which will cross the Affinity Water supply area. 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, £98,478,000 (2021: £14,621,000) 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 2022, £14,268,000 (2021: £91,916,000) of payments received were included in payments in advance – grants and contributions.

Recognition of trade receivables, contract assets and contract liabilities

For metered customers, a receivable is recognised when the customer is billed for the usage. At this point, the consideration is unconditional because only the passage of time is required before the payment is due. Where the company has provided the service before payment is due, an accrual for the consumption of water that has not yet been billed is recognised in the income statement and the company discloses this as a contract asset in the statement of financial position (see table on the previous page). Where the company has not provided the service before payment is due, deferred income is recognised and the company discloses this as a contract liability in the statement of financial position (see table on the previous page).

For unmetered customers, the customer pays a fixed amount determined by the transaction prices set out in the company's charging scheme and tariff documents. 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:

	2022 £000	2021 £000
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Payments received in advance – household water supplies	**41,217**	39,191
Payments received in advance – non-household water supplies	**2,948**	254
Deferred income – water supplies	**138**	72
Deferred income – other	**775**	434
Deferred grants and contributions	**5,300**	3,041
Payments received in advance – grants and contributions	**7,585**	11,320
Revenue recognised from performance obligations satisfied in previous years		
Unbilled accrual for metered customers – household customers	**–**	(264)

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 2022, £154,294,000 (2021: £154,175,000) of grants and contributions is expected to be derived from performance obligations which were unsatisfied at the end of the reporting year.

2. Operating profit

2.1 Operating costs

The following items have been charged/(credited) to either cost of sales or administrative expenses in the income statement:

	2022 £000	2021 (restated) £000
Staff costs (note 3.1)	**55,367**	55,189
Profit on disposal of property, plant and equipment	**(244)**	(1,061)
Loss on disposal of infrastructure assets	**728**	1,408
Purchase of bulk water and water supplied under statutory entitlement	**8,440**	10,255
Water abstraction charges	**4,201**	3,984
Business rates	**15,551**	15,448
Chargeable services direct expenditure	**72**	283
Depreciation of infrastructure assets (note 6)	**11,964**	14,868
Depreciation of other property, plant and equipment (note 6)	**48,487**	49,928
Depreciation of right-of-use assets (note 7)	**3,681**	3,684
Amortisation of intangible assets (note 8)	**11,125**	10,132
Impairment of trade receivables and contract assets (note 12)	**7,444**	8,318
Research and development	**133**	126
Short-term lease rentals	**37**	115
Low-value lease rentals	**129**	91
Auditor's remuneration (note 2.3)	**457**	421
Cost of inventories used	**1,334**	714

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included on pages 211 to 212.

Notes to the financial statements continued

2. Operating profit continued

2.2 Other operating income

	2022 £000	2021 £000
Timing of revenue recognition – at a point in time		
Commission and rentals	**18,972**	17,657

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 24).

2.3 Auditors' remuneration

During the year, the company obtained the following services from its Auditor and its associates:

	2022 £000	2021 £000
Fees payable to the company's Auditor and its associates for the audit of the financial statements	**243**	205
Fees payable to the company's Auditor and its associates for other services:		
Audit of the company's associates	**90**	99
Audit-related assurance services		
– regulatory reporting	**61**	56
– Thames Water and Anglian Water annual returns	**10**	10
– audit related assurance service – other	**47**	38
Other assurance services including services related to bond issue	**–**	6
Other non-audit services	**6**	7
Total Auditor's remuneration	**457**	421

3. Employees

3.1 Employee benefit expense (including Executive directors)

	2022 £000	2021 £000
Wages and salaries	**62,408**	59,742
Social security costs	**6,667**	6,168
Other pension costs	**8,399**	8,223
Staff costs	**77,474**	74,133
Staff costs capitalised	**(22,107)**	(18,944)
Staff costs recognised in the income statement	**55,367**	55,189

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	2022 Number	2021 Number
Operations	**854**	760
Customer service	**257**	240
Administration	**262**	262
	1,373	1,262

Notes to the financial statements continued

3. Employees continued

3.3 Directors' remuneration

Directors' emoluments were as follows:

	2022 £000	2021 £000
Aggregate emoluments	**1,839**	1,390

Aggregate amounts receivable under long-term incentive schemes were £482,000 (2021: £283,000), not included within aggregate emoluments above. For Pauline Walsh, £230,000 relates to the 2019/20 LTIP scheme, which vested in the year ended 31 March 2022, with the remaining amount of £132,000 relating to accrued elements of the 2020/21 and 2021/22 LTIP schemes earned on a pro-rata basis for the period served in office. Both amounts will be fully paid in July 2022. For Stuart Ledger, £120,000 relates to the 2019/20 LTIP scheme, which vested in the year ended 31 March 2022 and will be paid in three equal instalments in the years ending 31 March 2023, 31 March 2024 and 31 March 2025. The prior year total of £283,000 relates to the 2018/19 LTIP scheme, which vested in the year ended 31 March 2021 and will be paid in three equal instalments in the years ending 31 March 2022, 31 March 2023 and 31 March 2024.

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.

Highest paid director

The highest paid director's emoluments were as follows:

	2022 £000	2021 £000
Aggregate emoluments	**933**	576

Aggregate amounts receivable under long-term incentive schemes were £362,000 (2021: £206,000), not included within aggregate emoluments above. Of this, £230,000 relates to the 2019/20 LTIP scheme, which vested in the year ended 31 March 2022, with the remaining amount of £132,000 relating to accrued elements of the 2020/21 and 2021/22 LTIP schemes earned on a pro-rata basis for the period served in office. Both amounts will be fully paid in July 2022. The prior year total of £206,000 relates to the 2018/19 LTIP scheme, which vested in the year ended 31 March 2021 and will be paid in three equal instalments in the years ending 31 March 2022, 31 March 2023 and 31 March 2024.

The company made no contributions to a pension plan in respect of the highest paid director's qualifying services during the year (2021: £55,000). 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 164 to 183.

4. Finance income and costs

	2022 £000	2021 (restated) £000
Finance income:		
Bank interest income	**192**	213
Net interest receivable on RPI linked inflation swaps	**7,434**	6,792
Net interest receivable on CPI linked inflation swaps	**6,929**	6,297
Net income from post-employment benefits	**1,488**	2,468
	16,043	15,770
Finance costs:		
Interest payable on borrowings held at amortised cost from parent company	**(160)**	(160)
Interest payable on borrowings held at amortised cost from subsidiary undertakings	**(37,411)**	(37,510)
Accretion payable in respect of interest on loans from subsidiary undertakings	**(35,047)**	(5,254)
Accretion payable on financial instrument	**(29,574)**	(4,564)
Interest payable on lease liabilities	**(313)**	(315)
Other	**(368)**	(818)
	(102,873)	(48,621)
Fair value gain/(loss) on financial instruments:		
Fair value loss on inflation swaps	**(31,295)**	(32,452)
	(31,295)	(32,452)
Net finance costs	**(118,125)**	(65,303)

The prior year has been restated to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 211 to 212.

Notes to the financial statements continued

5. Income tax expense/(credit)

5.1 Income tax expense/(credit) included in the income statement

	2022 £000	2021 (restated) £000
Current tax:		
– UK corporation tax on losses for the year	–	–
– Adjustment in respect of prior years	–	(830)
Total current tax	–	(830)
Deferred tax:		
– Origination and reversal of temporary differences	(10,949)	(9,901)
– Impact of change in tax rate	54,729	–
– Adjustment in respect of prior years	(2,449)	420
Total deferred tax	41,331	(9,481)
Income tax expense/(credit)	41,331	(10,311)

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 211 to 212.

Tax expense assessed for the year is higher (2021: tax credit is higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2022 of 19% (2021: 19%). The differences are explained below:

	2022 £000	2021 (restated) £000
Loss before tax	(55,574)	(53,437)
Tax calculated at the standard rate of tax in the UK of 19% (2021: 19%)	(10,559)	(10,153)
Tax effects of:		
– Adjustments in respect of prior years	(2,449)	(410)
– Expenses not deductible for tax purposes	(390)	252
– Impact of change in tax rate on deferred tax	54,729	–
Income tax expense/(credit)	41,331	(10,311)

5.2 Income tax expense/(credit) included in the statement of comprehensive income

	2022 £000	2021 £000
Deferred tax:		
– Impact of change in tax rate on deferred tax	1,725	–
– Origination and reversal of temporary differences on retirement benefit surplus	5,462	(6,111)
	7,187	(6,111)

5.3 Factors that may affect future tax charges

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19%, as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

5.4 Reconciliation of current and deferred tax charge

	2022 £000	2022 %	2021 (restated) £000	2021 %
Loss before tax	(55,574)		(53,437)	
Tax calculated at the standard rate of tax in the UK of 19% (2021: 19%)	(10,559)	19%	(10,153)	19%
Tax effect of:				
Depreciation in excess of capital allowances	10,752	(19%)	10,578	(20%)
Pension movements	(183)	0%	(394)	1%
Increase in provisions	(128)	0%	(29)	0%
Expenses not deductible for tax purposes	118	0%	(2)	0%
Adjustment to tax charge in respect of prior years	–	0%	(830)	1%
Reported current tax charge and effective rate	–	0%	(830)	1%
Depreciation in excess of capital allowances	(11,260)	20%	(10,324)	19%
Increase in provisions	128	0%	29	0%
Pension movements	183	0%	394	(1%)
Impact of change in tax rate on deferred tax	54,729	(99%)	–	0%
Adjustments to tax charge in respect of prior years	(2,449)	4%	420	(1%)
Reported deferred tax charge and effective rate	41,331	(74%)	(9,481)	18%
Total tax charge and effective rate	41,331	(74%)	(10,311)	19%

Impact of change in tax rate

In the 2021 Spring Budget the UK Government announced that from 1 April 2023 the Corporation Tax rate will increase to 25%. The deferred tax liability at 31 March 2022 has been recalculated at 25%.

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 2021/22, 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 plan in the year, not the amount charged in the accounts. In 2021/22, the amount paid into the pension plan was higher than the amount charged in the accounts, resulting in a lower tax charge for the year.

Provisions movements

Some provisions charged in the accounts are not deductible until the amounts provided are actually paid. Taxable profits in 2021/22 have been reduced by payments made in respect of provisions charged in previous years.

Expenses not deductible for tax purposes

These will not reverse in future years, therefore, the increase in the tax charge is permanent. Permanent disallowable expenses include fines, business entertaining and certain legal fees.

Adjustment to tax charge in respect of prior years

The tax provision in the accounts is a best estimate at the time. The estimate is corrected when the tax returns are finalised and submitted to HMRC 12 months after the year-end. The correction made to the tax return for the year ended 31 March 2021 resulted in a lower tax charge, mainly as a result of claiming capital allowances.

Notes to the financial statements continued

6. Property, plant and equipment

	Land, buildings and operational structures £000	Potable water distribution mains £000	Raw water pipes £000	Fixed plant £000	Vehicles and mobile plant £000	Assets in course of construction £000	Total £000
Cost or deemed cost							
At 1 April 2021	308,479	904,383	22,765	885,377	84,157	160,058	**2,365,219**
Additions	–	–	–	–	–	136,043	**136,043**
Transfers	1,903	114,816	–	12,014	7,899	(136,632)	**–**
Disposals	(131)	(857)	(4)	–	(427)	–	**(1,419)**
At 31 March 2022	310,251	1,018,342	22,761	897,391	91,629	159,469	**2,499,843**
Accumulated depreciation							
At 1 April 2021	(101,296)	(80,209)	(2,318)	(602,582)	(37,865)	–	**(824,270)**
Charge for the year	(4,596)	(11,643)	(321)	(39,090)	(4,801)	–	**(60,451)**
Disposals	28	83	–	–	338	–	**449**
At 31 March 2022	(105,864)	(91,769)	(2,639)	(641,672)	(42,328)	–	**(884,272)**
Net book amount							
At 1 April 2021	207,183	824,174	20,447	282,795	46,292	160,058	**1,540,949**
Movement in year	(2,796)	102,399	(325)	(27,076)	3,009	(589)	**74,622**
At 31 March 2022	204,387	926,573	20,122	255,719	49,301	159,469	**1,615,571**

All land and buildings are held as freehold.

7. Right-of-use assets

	Buildings £000	Vehicles £000	Other £000	Total £000
Cost				
At 1 April 2021	9,079	7,521	402	**17,002**
Additions	–	3,660	–	**3,660**
Disposals	–	(1,097)	(402)	**(1,499)**
At 31 March 2022	9,079	10,084	–	**19,163**
Accumulated depreciation				
At 1 April 2021	(2,794)	(4,298)	(402)	**(7,494)**
Charge for the year	(1,397)	(2,284)	–	**(3,681)**
Disposals	–	1,050	402	**1,452**
At 31 March 2022	(4,191)	(5,532)	–	**(9,723)**
Net book amount				
At 1 April 2021	6,285	3,223	–	**9,508**
Movement in year	(1,397)	1,329	–	**(68)**
At 31 March 2022	4,888	4,552	–	**9,440**

8. Intangible assets

	Goodwill £000	Software £000	Total £000
Cost			
At 1 April 2021 (restated)	14,961	86,952	**101,913**
Additions	–	8,608	**8,608**
At 31 March 2022	14,961	95,560	**110,521**
Accumulated amortisation			
At 1 April 2021 (restated)	–	(56,130)	**(56,130)**
Charge for the year	–	(11,125)	**(11,125)**
At 31 March 2022	–	(67,255)	**(67,255)**
Net book amount			
At 1 April 2021 (restated)	14,961	30,822	**45,783**
Movement in year	–	(2,517)	**(2,517)**
At 31 March 2022	14,961	28,305	**43,266**

The opening balances have been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs. Further details are included on pages 211 to 212.

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 2022. 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 computer software asset category above is £12,532,000 of capitalised intangible assets under construction, which is not amortised. £7,366,000 of intangible projects under construction were completed in the year, and amortisation was charged as at the point in time that the software became fit for purpose and ready to use.

There were no individually material computer software development costs in the years ended 31 March 2022 or 31 March 2021.

9. Investments

	2022 £000	2021 £000
Non-current assets		
Investments in subsidiaries (refer to note A6)	**100**	100
Current assets		
Short-term deposits	**70,179**	15,132

The directors confirm that the carrying value of the investments is supported by their underlying net assets.

Notes to the financial statements continued

10. Retirement benefit surplus

Defined benefit section

The net pension expense before taxation recognised in the income statement in respect of the defined benefit plan is:

	2022 £000	2021 £000
Total current service cost of the Affinity Water Pension Plan	**(4,061)**	(3,310)
Contributions from participating employer	**–**	51
Past service cost	**–**	(31)
Pension expense charged to operating profit	**(4,061)**	(3,290)
Net pension interest income credited to finance income (note 4)	**1,488**	2,468
Net pension expense charged before taxation	**(2,573)**	(822)

The opening and closing retirement benefit surpluses included in the statement of financial position are summarised as follows:

	2022 £000	2021 £000
At 1 April	**74,532**	104,619
Principal employer contributions	**3,539**	2,897
Net current service cost (per above)	**(4,061)**	(3,259)
Past service cost	**–**	(31)
Net interest income	**1,488**	2,468
Net re-measurement gain/(loss)	**28,749**	(32,162)
At 31 March	**104,247**	74,532

Re-measurement gains and losses are recognised directly in the statement of comprehensive income and are summarised as follows:

	2022 £000	2021 £000
Re-measurement gains on plan assets	**8,249**	40,649
Re-measurement gains/(losses) on plan liabilities	**20,500**	(72,811)
	28,749	(32,162)

Further analysis and underlying valuation assumptions of the defined benefit plan are provided in note A5.

11. Derivative financial instruments

	2022 £000	2021 (restated) £000
Non-current assets:		
Fair value of energy swaps	**7,342**	–
Current assets:		
Fair value of energy swaps	**20,646**	–
	27,988	–
Non-current liabilities:		
Fair value of RPI linked inflation swaps	**24,224**	6,629
Accretion on RPI linked inflation swaps	**23,702**	7,721
Fair value of CPI linked inflation swaps	**43,729**	30,028
Accretion on CPI linked inflation swaps	**15,163**	1,547
	106,818	45,925

The prior year has been restated to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 211 to 212.

A series of power hedging swaps were entered into between May 2021 and February 2022 in order to hedge against wholesale energy prices.

The fair value of energy swaps have been derived from 'Level 2' fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of energy swaps is calculated by discounting expected future cashflows based on market expectations of energy prices in the future.

An RPI linked inflation swap with a nominal value of £135.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (maturity July 2026), was entered into in August 2018. A further RPI linked inflation swap with a nominal value of £75.0m, which is also linked to the maturity of the Class A fixed rate £250.0m bond (maturity July 2026), was entered into in October 2020, with an effective date of 1 August 2020.

A CPI linked inflation swap with a nominal value of £25.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (maturity March 2036), was entered into in March 2020. Further CPI linked inflation swaps with a total nominal value of £225.0m, which are also linked to the maturity of the Class A fixed rate £250.0m bond (maturity March 2036), were entered into between April 2020 and June 2020.

The fair value of RPI and CPI linked inflation swaps have been derived from 'Level 2' fair value measurements: directly observable market inputs other than Level 1 inputs. The fair value of RPI and CPI linked inflation swaps is calculated by discounting expected future cashflows based on market expectations of RPI and CPI. The discount rate used reflects the credit risk of the company, which is consistent with IFRS 13: 'Fair value measurement'.

Notes to the financial statements continued

12. Trade and other receivables

	2022 £000	2021 (restated) £000
Non-current:		
Other receivables	–	184
Current:		
Trade receivables	66,517	66,124
Less: loss allowance for trade receivables	(33,037)	(34,027)
	33,480	32,097
Amounts owed by group undertakings	25	–
Interest receivable from external parties	7,786	7,630
Other receivables	7,964	4,868
Unbilled accrual for metered customers	44,353	39,452
Prepayments and accrued income	10,213	7,746
	103,821	91,793

Trade receivables that were fully provided for were sold in both the current year and prior year, resulting in a reduction to trade receivables of £6,813,000 (2021: £2,213,000) and a corresponding reduction in the loss allowance for trade receivables.

The prior year has been restated to reclassify £7,592,000 of credit balances on customers' accounts to other payables in note 16. Previously, this was netted off against trade receivables. Further details are included on pages 211 to 212.

The carrying amounts of trade and other receivables approximate to their fair value.

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	
	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000
At 1 April	34,027	34,585	51	269	34,078	34,854
Provision for receivables impairment charged to income statement	7,394	8,536	50	(218)	7,444	8,318
Sale of trade receivables that were fully provided for	(6,813)	(2,213)	–	–	(6,813)	(2,213)
Receivables written off during the year as uncollectable	(1,571)	(6,881)	–	–	(1,571)	(6,881)
At 31 March	33,037	34,027	101	51	33,138	34,078

See note A4 for details of the nature and the calculation of the loss allowance.

An additional charge to the income statement of £1,413,000 arising as a result of external economic factors including the increase in cost of living currently impacting our customers has been made during the year. This is included within the £7,444,000 total provision for receivables impairment credited to the income statement.

In the prior year, £2,346,000 of the £8,318,000 total provision for receivables impairment charged to the income statement was an additional charge arising as a result of Covid-19.

12.2 Ageing analysis of trade receivables

The aged analysis of receivables at the reporting date is as follows:

	2022 £000	2021 (restated) £000
Aged less than one year	24,157	22,406
Aged between one year and two years	21,884	23,471
Aged greater than two years	20,476	20,247
	66,517	66,124

The prior year has been restated to reclassify £7,592,000 of credit balances on customers' accounts to other payables in note 16. Previously, this was netted off against trade receivables aged greater than two years. Further details are included on pages 211 to 212.

13. Inventories

	2022 £000	2021 £000
Raw materials and consumables	4,348	4,080

Inventories are stated after provisions for impairment of £364,000 (2021: £364,000).

14. Cash and cash equivalents

	2022 £000	2021 £000
Cash at bank and in hand	34,479	43,650
Term deposits	101,125	41,116
	135,604	84,766

The carrying amounts of cash and cash equivalents approximate to their fair value.

15. Share capital, share premium and capital contribution reserve

Allotted and fully paid up	Number of shares (thousands)	Ordinary shares of £0.10 each £000	Share premium £000	Capital contribution reserve £000	Total £000
At 31 March 2021 and 31 March 2022	305,058	30,506	1,400	30,150	62,056

All shares rank pari passu in all respects.

Notes to the financial statements continued

16. Trade and other payables

	2022 £000	2021 (restated) £000
Non-current		
Amounts falling due after more than one year		
Deferred grants and contributions	**25,509**	10,286
Amounts falling due after more than five years		
Deferred grants and contributions	**221,565**	140,520
	247,074	150,806
Current		
Amounts falling due within one year		
Trade payables	**22,166**	23,678
Amounts due to group undertakings	**615**	537
Interest payable to subsidiary companies	**14,052**	13,858
Commitment fees	**63**	55
Social security and other taxes	**1,796**	1,654
Other payables	**5,391**	8,615
Capital accruals	**21,587**	16,833
Deferred grants and contributions	**5,698**	3,369
Payments received in advance	**81,980**	152,911
Deferred income	**843**	1,144
Other accruals	**38,626**	32,838
	192,817	255,492
	439,891	406,298

The prior year has been restated to reclassify £7,592,000 of credit balances on customers' accounts to other payables. Previously, this was netted off against trade receivables in note 12. Further details are included on pages 211 to 212.

The carrying amounts of trade and other payables approximate to their fair value.

Interest payable to subsidiary companies relates to accrued interest on bonds.

17. Borrowings

	2022 £000	2021 £000
Borrowings measured at amortised cost:		
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**252,498**	252,999
Loan from Affinity Water Finance PLC financed by bond issue	**1,019,706**	838,496
Loan from intermediate parent company	**3,550**	3,550
3.5% irredeemable consolidated debenture stock	**–**	–
4% irredeemable consolidated debenture stock	**8**	8
4% irredeemable debenture stock	**1**	1
4.25% irredeemable debenture stock	**–**	–
5% irredeemable debenture stock	**24**	24
5.25% irredeemable debenture stock	**1**	1
	1,275,788	1,095,079

On 13 July 2004, the company's subsidiary Affinity Water Finance (2004) PLC issued a £200,000,000 bond at an interest rate of 5.875% and repayable in July 2026. On 16 July 2014, Affinity Water Finance (2004) PLC completed a tap issue of £50,000,000 on the same terms as the existing £200,000,000 bond.

The net proceeds of the bond and tap issue were lent to the company on the same terms.

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%.

The net proceeds of the bond issues and the tap issue were lent to the company on the same terms.

On 4 February 2013, the company borrowed an amount of £3,550,000 from Affinity Water Capital Funds Limited, the company's intermediate parent company. The final repayment date of this loan is 31 March 2036, with interest terms having been set at 4.500%.

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 2022 is £1,560,813,000 (2021: £1,496,837,000). 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.

Notes to the financial statements continued

18. Lease liabilities

	2022 £000	2021 £000
Non-current:		
Lease liabilities	**6,329**	6,016
Current:		
Lease liabilities	**3,317**	3,667

The following amounts in respect of leases are included within these financial statements:

	2022 £000	2021 £000
Depreciation charge of right-of-use assets (refer to note 7)	**3,681**	3,684
Interest expense on lease liabilities (refer to note 4)	**313**	315
Expense relating to short-term leases (refer to note 2.1)	**37**	115
Expense relating to leases of low-value assets (refer to note 2.1)	**129**	91
Principal elements of lease payments included within cash flows from financing activities	**3,649**	3,630
Interest payments included within cash flows from operating activities	**313**	315
Total cash outflow for leases in the statement of cash flows	**3,962**	3,945
Additions to right-of-use assets (refer to note 7)	**3,660**	756
Carrying amount of right-of-use assets (refer to note 7)	**9,440**	9,508

19. Deferred tax liabilities

19.1 Analysis of deferred tax assets and deferred tax liabilities

	2022 £000	2021 (restated) £000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**(585)**	(570)
– Deferred tax asset to be recovered within 12 months	**(38)**	(30)
	(623)	(600)
Deferred tax liabilities:		
– Deferred tax liability to be settled after more than 12 months	**232,153**	183,611
	232,153	183,611
Deferred tax liabilities – net	**231,530**	183,011

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative instruments. Further details are included on pages 211 to 212

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The gross movement on the deferred tax account is as follows:

	£000
At 1 April 2020 (restated)	198,602
Adjustment to prior year	421
Credited to the income statement (restated)	(9,901)
Credited to other comprehensive income	(6,111)
At 31 March 2021 (restated)	**183,011**
Adjustment to prior year	**(2,450)**
Impact of change in tax rate	**56,456**
Credited to the income statement	**(10,949)**
Charged to other comprehensive income	**5,462**
At 31 March 2022	**231,530**

The adjustment to prior year lines above are due to the tax provision in the accounts being a best estimate at the time. The estimate is corrected when the tax returns are finalised and submitted to HMRC 12 months after the year-end.

Notes to the financial statements continued

19. Deferred tax liabilities continued

The movement in deferred tax assets and liabilities during the year is as follows:

19.2 Deferred tax liabilities

	Accelerated capital allowances £000	Retirement benefit obligations £000	Total £000
At 1 April 2020 (restated)	179,354	19,877	199,231
Adjustment to prior year	421	–	421
Credited to the income statement (restated)	(10,324)	394	(9,930)
Credited to other comprehensive income	–	(6,111)	(6,111)
At 31 March 2021 (restated)	**169,451**	**14,160**	**183,611**
Adjustment to prior year	**(2,449)**	**–**	**(2,449)**
Impact of change in tax rate	**50,351**	**6,255**	**56,606**
Credited to the income statement	**(11,260)**	**183**	**(11,077)**
Charged to other comprehensive income	**–**	**5,462**	**5,462**
At 31 March 2022	**206,093**	**26,060**	**232,153**

19.3 Deferred tax assets

	Provisions £000
At 1 April 2020	(629)
Charged to the income statement	29
At 31 March 2021	(600)
Impact of change in tax rate	**(151)**
Charged to the income statement	**128**
At 31 March 2022	**(623)**

20. Provisions for other liabilities and charges

	Insurance £000	Reorganisation £000	Other £000	Total £000
At 1 April 2020	4,837	607	670	6,114
Charged to the income statement	469	–	–	469
Utilised in the year	(2,580)	(429)	–	(3,009)
At 31 March 2021	2,726	178	670	3,574
(Credited)/charged to the income statement	(105)	2,947	–	2,842
Utilised in the year	(184)	(3,125)	–	(3,309)
At 31 March 2022	**2,437**	**–**	**670**	**3,107**

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 £2,437,000 is presented as a non-current liability in the statement of financial position.

Included within the provision as at 31 March 2021 is an amount of £184,000, which was recoverable from the company's insurer. The provision above is shown gross, with the corresponding receivable disclosed as a non-current other receivable on the company's statement of financial position in the prior year.

Reorganisation

The reorganisation provision includes £2,947,000 in relation to a corporate reorganisation, which was charged and utilised in the income statement during the year. A provision of £178,000 remaining from a previous reorganisation was also utilised during the year. This was presented as a current liability in the statement of financial position in the prior year.

Other provisions

Other provisions of £670,000 (2021: £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.

21. Dividends

	2022 £000	2021 £000
No first interim dividend paid (2021: 0.38p per share)	**–**	1,000
	–	1,000

Notes to the financial statements continued

22. Notes to the statement of cash flows

22.1 Cash generated from operations

	2022 £000	2021 (restated) £000
Loss before tax	**(55,574)**	(53,437)
Adjustments for:		
Depreciation of property, plant and equipment (note 6)	**60,451**	64,796
Depreciation of right-of-use assets (note 7)	**3,681**	3,684
Amortisation of grants and contributions	**(5,300)**	(3,041)
Amortisation of intangible assets (note 8)	**11,125**	10,132
Profit on disposal of property, plant and equipment	**(244)**	(1,061)
Loss on disposal of infrastructure assets	**728**	1,408
Post-employment benefits	**522**	393
Net finance costs (note 4)	**118,125**	65,303
Net gain on energy swap	**(27,988)**	–
Changes in working capital		
– Inventories	**(268)**	(1,063)
– Trade and other receivables	**(11,844)**	14
– Trade and other payables		
– provision element	**(467)**	(2,540)
– other	**8,333**	13,776
Cash generated from operations	**101,280**	98,364

The prior year has been restated as a result of a change in accounting policy following the IFRIC agenda decision on the treatment of configuration and customisation costs, and to include a Debit Value Adjustment on the inflation swap derivative financial instruments. Further details are included on pages 211 to 212.

Changes in working capital – trade and other receivables of £(11,224,000) in the year (2021: £14,000) primarily relates to an increase in the unbilled accrual for metered customers, VAT receivables and the movement in prepayments and accrued income, as shown in note 12.

Changes in working capital – trade and payables – other of £7,714,000 in the year (2021: £13,776,000) primarily relates to a reduction in other accruals, as shown in note 16.

22.2 Reconciliation of liabilities arising from financing activities

	At 1 April 2021 £000	Cash flow £000	Non-cash flows £000	At 31 March 2022 £000
Loan from Affinity Water Finance (2004) PLC financed by bond issue	**252,999**	**–**	**(501)**	**252,498**
Loan from Affinity Water Finance PLC financed by bond issue	**838,496**	**146,994**	**34,216**	**1,019,706**
Loan from intermediate parent company	**3,550**	**–**	**–**	**3,550**
Lease liabilities	**9,683**	**(3,962)**	**3,925**	**9,646**
Debenture stock	**34**	**–**	**–**	**34**
Total liabilities arising from financing activities	**1,104,762**	**143,032**	**37,640**	**1,285,434**

	At 1 April 2020 £000	Cash flow £000	Non-cash flows £000	At 31 March 2021 £000
Loan from Affinity Water Finance (2004) PLC financed by bond issue	253,462	–	(463)	252,999
Loan from Affinity Water Finance PLC financed by bond issue	833,595	–	4,901	838,496
Loan from intermediate parent company	3,550	–	–	3,550
Lease liabilities	12,559	(3,945)	1,069	9,683
Debenture stock	34	–	–	34
Total liabilities arising from financing activities	1,103,200	(3,945)	5,507	1,104,762

Non-cash flows relate to loan indexation and amortisation of bond issuance costs and net additions of leases.

Notes to the financial statements continued

23. Commitments

23.1 Capital commitments

Capital expenditure contracted for at the end of the reporting year, but not yet incurred, is as follows:

	2022 £000	2021 £000
Property, plant and equipment	**31,985**	19,072
Intangible assets	**2,069**	1,756
	34,054	20,828

23.2 Commitments under leases

The company leases its vehicles and head office building under non-cancellable leases expiring within a maximum of five years. The leases have varying terms, clauses and renewal rights. The company also leased IT server space until 31 December 2021.

The company does not expect to extend any vehicles leases after their lease term has expired. The company will assess closer to the expiry of the lease of the head office building whether another formal agreement will be entered in to.

From 1 April 2019, the company has applied IFRS 16 and recognised right-of-use assets for these leases, (except for short-term and low-value leases, which are not within the scope of IFRS 16), see note 18 for further information.

The future aggregate minimum lease payments for operating leases not within the scope of IFRS 16 are as follows:

	2022 £000	2021 £000
No later than one year	**76**	90
Later than one year and no later than five years	**98**	168
Later than five years	**–**	–
	174	258

24. 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 2022 (2021: £nil) and the company incurs no bad debt risk in relation to this service.

25. Events after the reporting period

There were no significant events after the reporting period.

26. 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 for the year ended 31 March 2022 may be obtained from the Company Secretary, Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ. The directors consider Daiwater Investment Limited as the ultimate holding and controlling company in the United Kingdom.

The directors consider the following entities to be the company's ultimate controllers, as they are in a position to exercise material influence over the company's policy and affairs:

- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc.

Allianz Capital Partners is the Allianz Group's in-house investment manager for alternative equity investments. The investment focus is on infrastructure and renewables as well as private equity funds. Allianz Capital Partners' investment strategy is targeted to generate attractive, long-term and stable returns, while diversifying the overall investment portfolio for the Allianz Group insurance companies.

DIF is an independent and specialist fund management company, which invests in infrastructure assets that generate long-term stable cash flows, including public-private partnerships, regulated infrastructure assets and renewable energy projects in Europe, North America and Australia.

HICL Infrastructure plc is a long-term investor in infrastructure assets, which are predominantly operational and yielding steady returns. HICL Infrastructure plc has a portfolio of infrastructure investments, which are positioned at the lower end of the risk spectrum, in three target market segments: public-private partnerships, regulated assets and demand-based assets. The Investment Manager to HICL Infrastructure plc is InfraRed Capital Partners Limited, a leading international investment manager focused on infrastructure and renewable energy investments. On 1 July 2020, Sun Life Financial Inc acquired an 80% interest in the InfraRed business from InfraRed Capital Partners (Management) LLP and became an ultimate controller.

Notes to the financial statements – appendices

A1. General information

The company owns and manages the water assets and network in an area of approximately 4,500km² split over three supply regions, comprising eight separate water resource zones, in the South East of England. The company is the sole supplier of drinking water in these areas.

The company is a private company limited by shares and is incorporated and domiciled in the United Kingdom. The address of its registered office is Tamblin Way, Hatfield, Hertfordshire, AL10 9EZ.

Refer to note 26 for details of the company's parent company and ultimate parent company.

A2. Segmental reporting

In the same way that financial information is reported on a quarterly basis to the Board, the company's chief operating decision maker, during the current and previous financial year on a combined basis, the company presents its results under a single segment for financial reporting purposes.

A3. Accounting policies

Consolidation

The company is a wholly owned subsidiary of its ultimate holding and controlling company, Daiwater Investment Limited, which is the parent undertaking of the largest group to consolidate the statutory financial statements. It is included in the consolidated financial statements of Daiwater Investment Limited, which will be made publicly available. Therefore, the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

Property, plant and equipment

Property, plant and equipment are held at historical cost less accumulated depreciation and impairment charges.

Infrastructure assets comprise a network of mains and associated underground pipe-work. Infrastructure assets are held at deemed cost established through an event-driven valuation on transition to FRS 101 in 2015/16 and subsequent additions are recorded at historical cost less accumulated depreciation and impairment charges.

For accounting purposes, the network is segmented into components based on the material used to construct the pipe concerned. The estimated useful economic lives of infrastructure pipes are based on management's judgement and experience, which includes the knowledge and research of the company's dedicated asset management teams. Where management identifies that the actual useful economic life of an asset significantly differs from the estimate used to calculate its depreciation, the depreciation charge is adjusted prospectively.

Expenditure on infrastructure assets relating to increases in capacity, enhancements or material replacements of network components is capitalised where it can be reliably measured, and it is probable that incremental future economic benefits will flow to the company. The carrying amount of the replaced part is derecognised. Costs of day-to-day servicing of network components are recognised in the income statement as they arise.

Cost of other property, plant and equipment includes own work capitalised comprising the direct costs of materials, labour and applicable overheads.

Property, plant and equipment are depreciated to their estimated residual values over their estimated useful lives using the straight-line method, with the exception of freehold land, which is not depreciated. Assets in the course of construction are not depreciated until commissioned.

The estimated useful lives of property, plant and equipment are:

Infrastructure assets	
Potable water distribution mains	50–150 years
Raw water pipes	50–150 years
Other property, plant and equipment	
Buildings	40–60 years
Operational structures	5–85 years
Fixed plant – short life	3–10 years
– other	10–30 years
Vehicles and mobile plant	3–10 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in operating profit.

The company is required to evaluate the carrying value of its property, plant and equipment for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review in such circumstances requires management to make subjective judgements concerning the future cash flows, growth rates and discount rates of the asset under review.

Intangible assets

Goodwill

Goodwill represents the excess of the fair value of purchase consideration over the fair value of the net assets acquired. Fair value adjustments based on provisional estimates are amended within one year of the acquisition, if required, with a corresponding adjustment to goodwill.

Goodwill is not amortised but is reviewed for impairment at least annually. Impairment reviews are also carried out if there is an indication that impairment may have occurred, or, where otherwise required, to ensure that intangible assets are not carried above their estimated recoverable amounts. Goodwill is allocated to the CGU that derives benefit from the goodwill for impairment testing purposes. Impairments are recognised immediately in the income statement.

Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets only if they meet the criteria of IAS 38: 'Intangible Assets', in that it is a separable, identifiable asset and it has a future economic benefit. Other development expenditures that do not meet these criteria are recognised as an expense as incurred, including costs associated with cloud computing arrangements.

Computer software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives, which does not exceed five years. Amortisation charged on assets with finite lives is recognised in the income statement in operating costs.

Computer software development costs are reviewed for impairment where indicators of impairment exist. Impairments are recognised immediately in the income statement.

Grants and contributions

Grants and contributions received in respect of property, plant and equipment where the performance obligation is deemed to be satisfied over time (consisting of contributions for diversions and requisitioned mains/extensions, and infrastructure charges), are treated as deferred income and released to revenue over the useful economic life of the property, plant and equipment to which they relate once these assets have been commissioned.

The company may be contracted by developers in its statutory supply area to relocate a pipe, which is already in the ground; this is known as a diversion. The company may also be contracted by developers in its statutory supply area to provide a new water main or new sewer; this is known as a requisition/extension. Contributions received in respect of diversions and requisitioned mains/extensions are treated as deferred income and released to revenue over time as the company considers that the obligation to provide these services is highly interrelated with the ongoing obligation to provide water services; therefore, the performance obligation is considered to be satisfied over the period that the property, plant and equipment constructed are in service.

Infrastructure charges are charges levied on developers for network reinforcement, which is not site specific, i.e. to fund expenditure, which will contribute towards wider network reinforcement work away from the development site. Infrastructure charges are treated as deferred income and released to revenue over time as there is an implied ongoing performance obligation to improve and maintain the wider network in order to provide an ongoing supply of water services.

Grants and contributions received in respect of property, plant and equipment where the performance obligation is deemed to be satisfied at a point in time (comprising payments for connection charges) are recognised immediately in the income statement, once the performance obligation is fulfilled. Connection charges are billed to developers for the provision of a connection to an existing water main, laying a pipe to the boundary of customers' properties and connecting to their supply pipes. Connection charges are recognised in revenue in the income statement in the year that they became receivable; the performance obligation has been identified as the connection of a service pipe to the main. Once the connection is made, the performance obligation is fulfilled and the income recognised immediately in the income statement.

Each of these types of grants and contributions (contributions for diversions and requisitioned mains/extensions, infrastructure charges, and connection charges) is not a government grant within the scope of IAS 20: 'Accounting for government grants and disclosure of government assistance' as the contributions are received from developers. While there may not be a written contract with the customer, the legal duties of the company under the Water Industry Act 1991 would seem to constitute a legally enforceable contract based on the transaction prices set out in the company's charges scheme, tariff documents and invoices; accordingly these grants and contributions fall within the scope of IFRS 15.

Investments

Investment in subsidiaries are held at cost, less accumulated impairment losses.

Short-term investments are deposits that cannot be withdrawn prior to maturity and are held at cost.

Trade and other receivables

Trade and other receivables are recognised initially at transaction price. The company holds the trade receivables with the objective of collecting the contractual cash flows, and, therefore, the trade and other receivables are subsequently measured at amortised cost using the effective interest method, less expected credit losses.

Expected credit losses are based on historical recoverability and calculated by applying a range of different percentages to trade receivables of different ages. These percentages also vary between categories of trade receivables. Higher percentages are applied to those categories of trade receivable that are considered to be of greater risk and also to trade receivables of greater age. The historical recoverability of trade receivables is deemed a good estimate of future expected credit losses. At each reporting date, the company takes into consideration any significant economic changes that may impact its credit loss model and future credit losses, for example Covid-19 or the increased cost of living currently impacting our customers. To estimate the impairment to its trade receivables from either of these factors, the company has assessed its debtors based on postcode driven customer demographics. The company has assessed what it believes to be the sensitivity of each demographic to the current and emerging effects of these factors on household finances and ability to maintain payments.

The company applies the IFRS 9 simplified approach for measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure expected credit losses, trade receivables and contract assets are grouped based on shared credit risk characteristics and overdue days. Contract assets relate to unbilled metered consumption and have substantially the same risk characteristics as trade receivables for the same types of contract. The company has, therefore, concluded that expected loss rates for trade receivables are a reasonable approximation for loss rates for contract assets.

Inventories

Inventories are valued at the lower of cost or net realisable value after allowance for obsolete and slow-moving items. In accordance with established practice in the water industry, no value has been placed upon the water in reservoirs, mains or in the course of treatment.

Notes to the financial statements – appendices

continued

A3. Accounting policies continued

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 expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholder's funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholder's funds, respectively.

The current tax charge is based on taxable profit for the year. Taxable profit differs from net profit 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.

Financial instruments

Financial instruments, such as derivatives, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting year. Gains or losses arising on revaluation are recorded in the income statement in the year in which they arise and are shown within either fair value gain/(loss) on inflation swaps or fair value gain/(loss) on energy swaps on the face of the income statement. Interest received or incurred on these derivative financial instruments is shown within finance income and finance costs on the face of the income statement.

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.

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 and presents this as a contract liability within trade and other payables.

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 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).

Notes to the financial statements – appendices

continued

A3. Accounting policies continued

Leases

The company leases its head office building and most of its vehicles. Rental contracts for vehicles are typically for fixed periods of two to five years. The company has an option to extend its leases; however, no contracts are reasonably certain to be extended after their lease term has expired. The lease contract of the head office building has a remaining period of 3.5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The company's lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

The company also leased some physical IT server space that was accounted for under IFRS 16 up to 31 December 2020. The lease was subsequently renewed to 31 December 2021 and treated as a short-term operating lease until that date. All remaining IT server space has been provided through a hosting service, therefore, it is out of scope of IFRS 16 as there is not a physically distinct identifiable asset. Costs are recognised on a straight-line basis as an expense in profit or loss.

The company applies recognition exemptions to short-term leases and leases of low-value assets. Short-term leases are leases with a term of 12 months or less. Low-value assets comprise small items of office equipment and IT equipment, typically costing no more than £5,000. Costs are recognised on a straight-line basis as an expense in profit or loss.

Leases falling within the scope of IFRS 16 are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The company's accounting policy is for assets and liabilities arising from a lease to be initially measured on a present value basis. Lease liabilities include the net present value of one or more of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising one or more of the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date, less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Lease payments may be discounted using the lessee's incremental borrowing rate if the interest rate implicit in the lease cannot be determined. The incremental borrowing rate is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The company uses an independent third-party to determine the incremental borrowing rate for each class of lease. The weighted average lessee's incremental borrowing rate applied to the lease liabilities during the year was 2.37%. The incremental borrowing rate is re-determined annually and applied to new leases for the subsequent year.

The company enters into agreements with employees to use vehicles that it leases from a third party as a company vehicle. These agreements are considered by the company to be part of the overall compensation package of an employee and, as such, the company has applied IAS 19 'Employee benefits' in accounting for these arrangements rather than considering the arrangements as subleases of vehicles to employees under IFRS 16.

The company does not use sale and leaseback transactions.

Grafham reservoir

Under the Great Ouse Water Act of 1961, the company has an entitlement to water from the Grafham reservoir owned and operated by Anglian Water Services Limited ('Anglian Water'). The company pays Anglian Water a charge for the supply of water, which covers its share of the overall costs of running Grafham reservoir. These costs are recognised as an expense within cost of sales in the income statement as incurred.

Dividend distributions

Dividend distributions to the company's shareholder are recognised as a liability in the company's financial statements in the year in which the dividends are approved.

Retirement benefits

The company operates a pension plan, the Affinity Water Pension Plan ('AWPP'), as the AWPP's Principal Employer, providing defined benefits based on final pensionable salary. The assets of the plan are held separately from those of the company.

Affinity Water Limited was the AWPP's Principal Employer up until 31 August 2020, with former group company Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) being a Participating Employer of the AWPP up until this date. Since this date, Affinity Water Limited has been the sole employer.

The cost of providing benefits under the defined benefit plan is determined using the projected unit method, which attributes entitlement to benefits to the current year (to determine current service cost) and to the current and prior years (to determine the present value of defined benefit obligations) and is based on actuarial advice. Past service costs are recognised immediately in the income statement. When a settlement or a curtailment occurs, the changes in the present value of the plan liabilities and the fair value of the plan assets reflect the gain or loss, which is recognised in the income statement. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

The retirement benefit surplus or deficit in the statement of financial position comprises the present value of the defined benefit obligation (using a discount rate based on high-quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price.

Re-measurement gains and losses arising from changes in actuarial assumptions are charged or credited to shareholder's funds in other comprehensive income in the year in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit asset or liability.

Former group company Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) contributed to the AWPP on behalf of its eligible employees up until 31 August 2020. As the Principal Employer, Affinity Water Limited recognised all the remeasurement gains and losses on the plan assets and liabilities. Affinity Water Limited recognised current service costs net of contributions from Castle Water (Southern) Limited (formerly Affinity for Business (Retail) Limited). Since this date, Affinity Water Limited has been the sole employer and, therefore, recognises all the remeasurement gains and losses on the plan assets and liabilities and recognises all current service costs.

Contributions to the defined contribution section of the plan are recognised within cost of sales and administrative expenses in the income statement in the year in which they become payable.

The company also has an obligation to pay pensions to former Non-Executive directors of predecessor companies. A provision in respect of the obligation is included within the net pension asset or liability.

A4. Financial instruments and risk management

Risk management

The company's financial instruments comprise borrowings, derivatives, debentures, cash and liquid resources, lease liabilities, and various items, such as trade receivables and trade payables that arise directly from operations. The main purpose of these financial instruments is to provide finance for the company's operations. The company finances its operations through a mixture of retained profits, borrowings from its subsidiary companies, borrowings from Affinity Water Capital Funds Limited, its intermediate parent, and debentures.

It is the company's policy, and has been throughout the year under review, that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are liquidity risk, credit risk, energy risk, interest rate risk and inflation risk. Treasury policies in relation to these risks are agreed in conjunction with the wider Affinity Water group.

The Board reviews and agrees policies for managing each of these risks (refer to our principal risks and uncertainties section beginning on page 98 for further information on management of these risks). These policies have remained unchanged during the year.

Day-to-day responsibility for operational compliance with the treasury policies rests with the treasurer. A treasury report is provided quarterly to the Board, which summarises treasury activities and includes details on the company's position in regard to debt and cash at the end of each quarter.

The company's treasury function does not act as a profit centre and does not undertake speculative transactions.

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 2022, the company had £360,783,000 (2021: £254,898,000) of available liquidity, which comprised £205,783,000 (2021: £99,898,000) of cash and term deposits and £155,000,000 (2021: £155,000,000) of undrawn committed borrowing facilities.

The company entered into RPI linked inflation swaps in August 2018 and October 2020, and between March 2020 and June 2020, entered into a series of 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 £110,163,000 (2021: £76,653,000), 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.

Notes to the financial statements – appendices

continued

A4. Financial instruments and risk management continued

Liquidity risk continued

Undrawn borrowing facilities:

	2022 £000	2021 £000
Floating rate:		
– Expiring within one year	**55,000**	55,000
– Expiring in more than one year	**100,000**	100,000
	155,000	155,000

The facilities expiring within one year comprise two standby facilities with one counterparty (2021: two counterparties) in the event of a liquidity shortfall: a 364 day revolving Debt Service Reserve Facility of £32,000,000 (2021: £32,000,000), which is intended for the purpose of funding any debt service payments, and a 364 day revolving Operations and Maintenance Reserve Facility of £23,000,000 (2021: £23,000,000), 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 (2021: £60,000,000) provided by Barclays Bank PLC and £40,000,000 (2021: £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 2025 and July 2024 respectively. These facilities were renewed on 24 June 2020 and use SONIA as the reference rate and have sustainability performance measures included.

Maturity analysis

Additional risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to the company's non-derivative financial liabilities (borrowings and lease liabilities) with agreed repayment periods on an undiscounted basis.

At 31 March 2022 Non-derivatives	1 year or less £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	More than 5 years £000	Total £000
Loans from subsidiaries	**53,017**	**38,836**	**39,004**	**39,176**	**289,348**	**1,262,651**	**1,722,032**
Loan from intermediate parent	**160**	**160**	**160**	**160**	**160**	**4,987**	**5,787**
Lease liabilities	**3,545**	**2,849**	**2,469**	**1,161**	**170**	**1**	**10,195**
Total non-derivatives	**56,722**	**41,845**	**41,633**	**40,497**	**289,678**	**1,267,639**	**1,738,014**

At 31 March 2021 Non-derivatives	1 year or less £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	More than 5 years £000	Total £000
Loans from subsidiaries	38,464	52,561	38,255	38,411	38,571	1,377,401	1,583,663
Loan from intermediate parent	160	160	160	160	160	5,146	5,946
Lease liabilities	3,220	2,689	2,019	1,662	650	–	10,240
Total non-derivatives	41,844	55,410	40,434	40,233	39,381	1,382,547	1,599,849

The maturity profile in the following table represents the forecast future net cash flows in relation to the company's derivatives estimated using the forward rates applicable at the year-end.

At 31 March 2022 Derivatives	1 year or less £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	More than 5 years £000	Total £000
RPI linked inflation swaps net payment/(receivable)	**(7,233)**	**(7,131)**	**(7,026)**	**(6,920)**	**38,297**	**–**	**9,987**
CPI linked inflation swaps net payment/(receivable)	**(6,773)**	**(6,717)**	**(6,660)**	**(6,603)**	**(6,545)**	**24,484**	**(8,814)**
Total derivatives	**(14,006)**	**(13,848)**	**(13,686)**	**(13,523)**	**31,752**	**24,484**	**1,173**

At 31 March 2021 Derivatives	1 year or less £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	More than 5 years £000	Total £000
RPI linked inflation swap net payment/(receivable)	(7,439)	(7,575)	(7,479)	(7,382)	(7,283)	15,080	(22,078)
CPI linked inflation swap net payment/(receivable)	(7,057)	(7,004)	(6,951)	(6,897)	(6,843)	(1,652)	(36,404)
Total derivatives	(14,496)	(14,579)	(14,430)	(14,279)	(14,126)	13,428	(58,482)

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, for example Covid-19 or the increased cost of living currently impacting our customers.

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.

Notes to the financial statements – appendices

continued

A4. Financial instruments and risk management continued

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).

The loss allowance as at 31 March 2022 and 31 March 2021 was determined as follows for both trade receivables and contract assets (unbilled accrual for metered customers):

At 31 March 2022	**Current £000**	**Current £000**	**Less than 1 year £000**	**1–2 years £000**	**2–3 years £000**	**3–4 years £000**	**More than 4 years past due £000**	**Total £000**
Expected loss rate – metered household receivables	**0.28%**	**0.00%**	**3%**	**10%**	**25%**	**49%**	**100%**	
Gross carrying amount – metered household receivables	**–**	**–**	**17,394**	**4,283**	**2,207**	**1,590**	**1,878**	**27,352**
Gross carrying amount – unbilled accrual for metered customers (household)	**40,948**	**–**	**–**	**–**	**–**	**–**	**–**	**40,948**
Gross carrying amount – unbilled accrual for metered customers (non-household)	**–**	**3,505**	**–**	**–**	**–**	**–**	**–**	**3,505**
Provision at expected loss rate	**101**	**–**	**448**	**448**	**545**	**781**	**1,878**	**4,201**
Additional provision	**–**	**–**	**2,177**	**–**	**–**	**–**	**–**	**2,177**
Amounts provided at 100%	**–**	**–**	**1,714**	**3,406**	**2,767**	**2,120**	**2,448**	**12,455**
Loss allowance	**101**	**–**	**4,339**	**3,854**	**3,312**	**2,901**	**4,326**	**18,833**

	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	–	3%	7%	17%	42%	100%	
Gross carrying amount – unmetered household receivables	–	6,452	2,859	1,686	1,070	1,554	13,622
Provision at expected loss rate	–	175	191	290	451	1,554	2,661
Additional provision	–	857	–	–	–	–	857
Amounts provided at 100%	–	333	2,559	2,377	1,854	2,405	9,527
Loss allowance	–	1,365	2,750	2,667	2,305	3,959	13,045

	Less than 3 months £000	**3–6 months £000**	**6–9 months £000**	**9–12 months £000**	**More than 12 months past due £000**	**Total £000**
Expected loss rate – developer services	**0%**	**34%**	**38%**	**14%**	**86%**	
Gross carrying amount – developer services	**917**	**389**	**230**	**978**	**1,047**	**3,561**
Loss allowance	**–**	**131**	**88**	**140**	**901**	**1,260**
Total loss allowance						**33,138**

At 31 March 2021	Current £000	Current £000	Less than 1 year £000	1–2 years £000	2–3 years £000	3–4 years £000	More than 4 years past due £000	Total £000
Expected loss rate – metered household receivables	0.14%	–	2%	7%	16%	33%	100%	
Gross carrying amount – metered household receivables	–	–	15,679	3,506	2,119	1,344	1,649	24,297
Gross carrying amount – unbilled accrual for metered customers (household)	36,793	–	–	–	–	–	–	36,793
Gross carrying amount – unbilled accrual for metered customers (non-household)	–	2,710	–	–	–	–	–	2,710
Provision at expected loss rate	51	–	236	238	329	443	1,649	2,946
Additional provision	–	–	1,612	–	–	–	–	1,612
Amounts provided at 100%	–	–	3,748	4,192	3,230	1,979	1,614	14,763
Loss allowance	51	–	5,596	4,430	3,559	2,422	3,263	19,321

	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	–	2%	5%	11%	27%	100%	
Gross carrying amount – unmetered household receivables	–	5,845	3,084	1,630	1,104	1,402	13,066
Provision at expected loss rate	–	114	139	186	297	1,402	2,138
Additional provision	–	734	–	–	–	–	734
Amounts provided at 100%	–	2,635	3,023	2,544	1,850	684	10,736
Loss allowance	–	3,483	3,162	2,730	2,147	2,086	13,608

	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%	59%	70%	100%	
Gross carrying amount – developer services	1,569	353	184	240	724	3,070
Loss allowance	–	150	108	167	724	1,149
Total loss allowance						34,078

A reconciliation between the opening and closing loss allowances for trade receivables and contract assets for the year ended 31 March 2022 is shown in note 12.

Notes to the financial statements – appendices

continued

A4. Financial instruments and risk management continued

At 31 March 2022 and 31 March 2021, the maximum exposure to credit risk was represented by the carrying amount of each financial asset in the statement of financial position:

	2022 £000	2021 (restated) £000
Cash and term deposits (note 14)	**135,604**	84,766
Short-term deposits (note 9)	**70,179**	15,132
Trade and other receivables (excluding prepayments and amounts recoverable from the company's insurer)	**97,967**	87,164
	303,750	187,062

The company manages its risk from treasury activities by ensuring counterparties meet the minimum credit requirements approved by the Board, which include a maximum peak exposure limit and minimum credit rating. Credit exposure is monitored regularly by the company's treasury function and is reported quarterly to the Board through the treasury report.

The breakdown of cleared cash and cash equivalents and short-term deposits treated as investments exposed to credit risk at each of the credit ratings per Standard & Poor's at 31 March is:

	2022 £000	2021 £000
AAA	**101,125**	41,116
A-1+	**35,048**	–
A-1	**67,212**	52,098
A	**–**	5,084
	203,385	98,298

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. An RPI linked inflation swap with a nominal value of £135.0m, which is linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), was entered into in August 2018 as this was the most efficient way to switch to a higher proportion of index linked debt. A further RPI linked inflation swap with a nominal value of £75.0m, also linked to the maturity of the Class A fixed rate £250.0m bond (July 2026), was entered into in October 2020, although backdated to 1 August 2020. A series of CPI linked inflation swaps with a total nominal value of £250.0m, linked to the maturity of the Class A fixed rate £250.0m bond (March 2036), were entered into between March 2020 and June 2020.

These swaps will lead to net interest receivable cashflow over the life of the swaps, which is expected to increase the headroom against our covenant limits, offset by an accretion payment on maturity. Movements in RPI/CPI forward rates create fair value profits or losses, which will flow through the income statement.

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 2022	**671,752**	**387,649**	**216,387**	**1,275,788**
31 March 2021	672,411	360,188	62,480	1,095,079

Sensitivity analysis

Sensitivity analysis has not been performed on movements in interest rates as the company's fixed rate debts had no exposure to interest rates as at 31 March 2022. 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	2022 £000	2021 £000
1% increase in RPI	**(3,872)**	(3,559)
1% decrease in RPI	**3,872**	3,640
1% increase in CPI	**(2,406)**	(630)
1% decrease in CPI	**1,600**	631

Energy price risk

The company is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the company to volatility in its operating cash flows. The company has mitigated this risk by fixing the price on a proportion of its anticipated electricity usage out to the end of 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 73.0% at 31 March 2022 (76.0% at 31 March 2021).

Assuming no significant changes to existing credit rating agencies' methodologies or sector risk assessments, the company aims to maintain its existing credit ratings of A3 with Moody's, BBB+ with Standard & Poor's and BBB+ with Fitch for the Class A bonds issued by its financing subsidiaries. These ratings are used by the industry's economic regulator, Ofwat, to assess the company's ability to comply with its licence requirement to maintain an investment grade credit rating.

The company looks to manage its risk by monitoring and maintaining the relevant key financial ratios used by the credit rating agencies to determine the credit ratings given. Further detail on the precise measures and methodologies used to assess water companies' credit ratings can be found in the methodology papers published by the rating agencies. Gearing and credit ratings are reported quarterly to the Board through the Treasury Report.

Notes to the financial statements – appendices

continued

A5. Retirement benefits

Defined benefit section

The company's pension plan providing benefits based on final pensionable salary is closed to new members (the two precursor plans closing in April 1996 and September 2004). The assets of the AWPP are held separately from those of the company. The plan's corporate trustee (the 'Trustee') is a subsidiary of Affinity Water Capital Funds Limited, an intermediate parent of the company.

The risks of the plan are as follows:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to high-quality corporate bond yields. If plan assets underperform this yield, this will create a deficit.

The assets of the plan include a proportion of equities, which are expected to outperform corporate bonds in the long term, while providing volatility and risk in the short term. As the plan has matured, the Trustee has commenced reducing the level of investment risk and will be investing more in assets that better match the liabilities of the plan and expected cash outflows based on the plan's maturity profile.

The company believes that due to the strength of its business and the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the Trustee's long-term strategy to manage the plan efficiently.

Changes in bond yield

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

Life expectancy

The majority of the plan's obligations are to provide benefits for the life of its members, so increases in life expectancy will result in an increase in the plan's liabilities.

Inflation risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation).

Investment strategy

Following a Trustee investment strategy review in 2018/19, and the focus towards a 'cashflow driven investment' strategy, the Trustee implemented the following changes to the plan's portfolio at that time:

- Increased the level of interest rate and inflation hedging provided by the plan's assets from 90% to 92.5%, subsequently rebalanced to 90% in December 2021; and
- Introduced a new segregated actively managed investment 'liability driven investment/cashflow driven investment' portfolio managed by Insight Investment Management Limited, which is expected to provide stable returns and regular income to meet the plan's outgoings.

The latest actuarial valuation of the AWPP, determined by an independent qualified actuary, was at 31 December 2020, which concluded that the pension plan was 96% funded on a self-sufficiency basis. This actuarial valuation was made on the 'attained age' funding method, based on the following assumptions:

RPI inflation:	measured by reference to the Bank of England gilt inflation curve
CPI inflation:	measured by reference to the RPI inflation curve described above less 1.0% per annum pre-2030 and less 0% per annum post-2030
Pre-retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 0.25% per annum
Post retirement discount rate:	measured by reference to the Bank of England gilt yield curves plus 0.25% per annum
Salary increases:	measured by reference to the CPI inflation curve described above plus 0.5% per annum
Deferred pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars
Pension increases:	measured by reference to the CPI or RPI inflation curves described above with an appropriate adjustment for any caps and collars

Defined benefit section – employer contributions

Based on the latest actuarial valuation at 31 December 2020, and to eliminate the funding shortfall identified, as well as funding the future cost of benefits being accrued within the plan, the company agreed to pay contributions of £1,250,000 prior to 31 July 2021, £1,600,000 prior to 31 December 2021, and £1,600,000 per annum commencing from 1 January 2022 onwards.

The contributions expected to be paid by the company into the AWPP for the year ending 31 March 2023 are, therefore, £1,600,000 (£5,000,000 in the year ended 31 March 2022, based on the former Schedule of Contributions and dependent on the outcome of the actuarial valuation as at 31 December 2020 being undertaken at the time).

The weighted average duration of the defined benefit obligation is 16.5 years (2021: 17.5 years).

Defined benefit section – financial and demographic assumptions

Adjustments to actuarial valuations have been made based on the following assumptions:

	2022	2021
Discount rate	**2.70% pa**	1.95% pa
Salary growth	**3.60% pa**	3.25% pa
RPI	**3.65% pa**	3.25% pa
CPI	**3.10% pa**	2.75% pa
Life expectancy for a male pensioner from age 65 (years)	**22**	22
Life expectancy for a female pensioner from age 65 (years)	**24**	24
Life expectancy from age 65 (years) for a male participant currently aged 45 (years)	**24**	23
Life expectancy from age 65 (years) for a female participant currently aged 45 (years)	**26**	26

Deferred pensions are revalued to retirement age in line with the CPI assumption, of 3.10% per annum (2021: 2.75% per annum) unless otherwise prescribed by statutory requirements or the plan rules.

Defined benefit section – sensitivity analysis

The below sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit asset to significant actuarial assumptions, the same method (present value of the defined benefit asset calculated using the projected unit credit method at the end of the reporting year) has been applied as when calculating the pension asset recognised within the statement of financial position.

	Change in assumption	Impact on defined benefit obligation	Change in assumption	Impact on defined benefit obligation
2022				
Discount rate	**0.5% decrease**	**8.6% increase**	**0.5% increase**	**7.6% decrease**
Salary growth	**0.5% increase**	**0.8% increase**	**0.5% decrease**	**0.7% decrease**
Pension growth rate	**0.5% increase**	**6.8% increase**	**0.5% decrease**	**6.1% decrease**
Life expectancy	**1 year increase**	**4.0% increase**	**1 year decrease**	**4.0% decrease**
2021				
Discount rate	0.5% decrease	9.2% increase	0.5% increase	9.2% decrease
Salary growth	0.5% increase	0.9% increase	0.5% decrease	0.9% decrease
Pension growth rate	0.5% increase	7.5% increase	0.5% decrease	7.5% decrease
Life expectancy	1 year increase	4.0% increase	1 year decrease	4.0% decrease

Notes to the financial statements – appendices

continued

A5. Retirement benefits continued

Defined benefit section – net retirement benefit surplus

At 31 March, the fair values of the plan's assets recognised in the statement of financial position were as follows:

	Plan assets %	2022 £000	Plan assets %	2021 £000
Equity securities	**7%**	**37,244**	6%	33,415
Debt securities	**71%**	**391,678**	73%	392,829
Property	**–**	**156**	–	266
Infrastructure	**1%**	**3,388**	2%	9,575
Liability driven investments	**15%**	**80,555**	13%	70,344
Cash and cash equivalents	**6%**	**34,481**	6%	33,941
Total fair value of the plan's assets	**100%**	**547,502**	100%	540,370
Present value of defined benefit obligations		**(443,255)**		(465,838)
Net retirement benefit surplus		**104,247**		74,532

The total of assets that are quoted is £441,737,000 (2021: £416,456,000) and the total of assets that are unquoted is £105,765,000 (2021: £123,914,000).

Defined benefit section – fair value of plan assets

Movements in the fair value of the plan's assets were as follows:

	£000	£000
At 1 April 2021 / 1 April 2020	**540,370**	501,251
Benefits paid	**(15,301)**	(16,395)
Principal employer contributions	**3,539**	2,897
Contributions by plan participants	**215**	552
Interest income	**10,430**	11,416
Re-measurement gains	**8,249**	40,649
At 31 March 2022 / 31 March 2021	**547,502**	540,370

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 2021 / 1 April 2020	**(465,838)**	(396,632)
Benefits paid	**15,301**	16,395
Contributions by plan participants	**(215)**	(552)
Net current service cost	**(4,061)**	(3,259)
Past service cost	**–**	(31)
Interest expense	**(8,942)**	(8,948)
Re-measurement gains/(losses)	**20,500**	(72,811)
At 31 March 2022 / 31 March 2021	**(443,255)**	(465,838)

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 2022 was £3,677,000 (2021: £3,573,000). There are no amounts prepaid or outstanding in respect of the defined contribution section at 31 March 2022 (2021: £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 2022 (2021: £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 £7,000 for the year ended 31 March 2022 (2021: £6,000), relating to bond management fees charged to Affinity Water Limited.

The four dormant subsidiaries listed above file accounts at Companies House.

A7. Related party transactions

Purchases of goods and services

			2022		2021	
Related party	**Nature of relationship**	**In respect of**	**Value £000**	**Balance £000**	Value £000	Balance £000
Allianz Global Corporate & Speciality	Common ownership	Insurance	**1,701**	**(616)**	2,093	(1,084)
Allianz Insurance	Common ownership	Insurance	**539**	**(539)**	–	–
Allianz Engineering	Common ownership	Insurance	**–**	**–**	1	–
SSE plc	Shared director (up until 29 January 2021)	Electricity	**–**	**–**	21,965	–

Sales of goods and services

			2022		2021	
Related party	**Nature of relationship**	**In respect of**	**Value £000**	**Balance £000**	Value £000	Balance £000
Vistry Group plc	Shared director	Connection charges	**4**	**–**	2	–

See note 3.3 for disclosure of the directors' remuneration.

Glossary of terms

Glossary of key abbreviations and definitions used within this report and the water industry

AMP – Asset Management Plan

The five-year price control period covered by a company's Business Plan. AMP6 ran from 2015 to 2020. AMP7 runs from 2020 to 2025.

C-MeX – Customer Measure of Experience

A measure of customer service levels being used by Ofwat in AMP7.

CCG – Customer Challenge Group

An independent group of individuals who hold us to account on how we are performing against our Performance Commitments.

CRI – Compliance Risk Index

A measure of water quality compliance designed to illustrate the risk arising from treated water compliance failures.

D-MeX – Developer Measure of Experience

A measure of developer service levels being used by Ofwat in AMP7.

Ml/d – Megalitres per day

A measure of consumption. One megalitre is equal to one million litres.

MOSL – Market Operator Services Limited

The market operator of England's non-household water market.

MZC – Mean Zonal Compliance

A measure of water quality compliance derived from monitoring samples taken from customers' taps.

ODI – Outcome Delivery Incentive

Mechanism for financial rewards or penalties that underpins the Performance Commitments submitted in a company's Business Plan (the "Plan").

PCC – Per Capita Consumption

The amount of water used by each person, usually measured in litres per person per day ('l/p/d').

PR – Periodic Review

The price determination process undertaken by Ofwat ahead of each new AMP. The PR19 process set the price controls for AMP7.

R-MeX – Retailer Measure of Experience

A measure of retailer service levels being used by Ofwat in AMP7.

RCV – Regulatory Capital Value

The economic value of the regulated business, as determined by the price control regime.

RORE – Return on Regulated Equity

A financial metric used by Ofwat to determine the profitability of the regulated company.

Totex – Total expenditure

The sum of operational expenditure and capital expenditure.

WINEP – Water Industry National Environment Programme

A set of actions that water companies must complete in order to meet their environmental obligations.

WRMP – Water Resources Management Plan

A long-term plan detailing how a water company will maintain a sustainable balance between future demand and supply of water.

Our regulators

CCW – Consumer Council for Water

The regulator tasked with investigating customer complaints relating to service, price and value for money.

Defra – Department for the Environment,

Food and Rural Affairs

The UK Government department responsible for water policy.

DWI – Drinking Water Inspectorate

The regulator ensuring compliance with drinking water quality regulations.

EA – Environment Agency

A non-governmental organisation that controls, inter alia, how much water we can abstract from the environment.

Ofwat – Water Services Regulation Authority

The economic regulator of the water industry.

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