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

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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

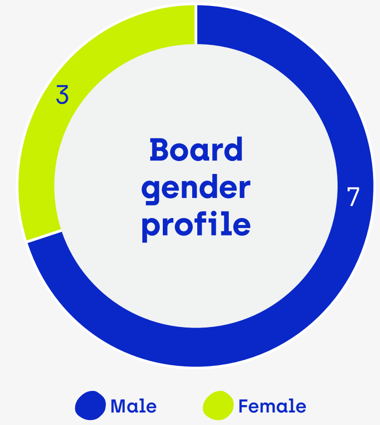
- **Matters Reserved to the Board**
  affinitywater.co.uk/docs/governance/AWL-Matters-Reserved-for-the-Board-Sep-2017-draft.pdf
- **Non-Executive Director Letters of Appointment**
  affinitywater.co.uk/corporate/about/governance-assurance
- **Terms of References for Board Committees**
  affinitywater.co.uk/corporate/about/governance-assurance

Board composition

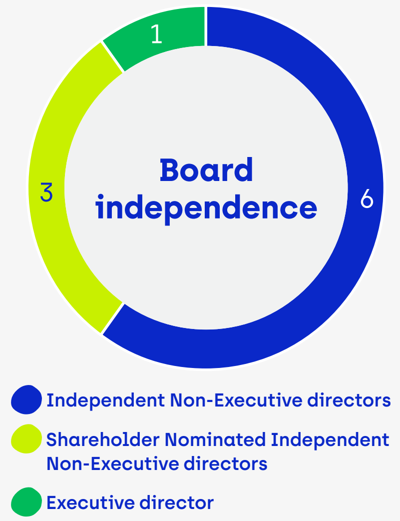
All appointments to the Board are subject to a formal, rigorous, and transparent procedure.

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

Independent 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:

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- 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.

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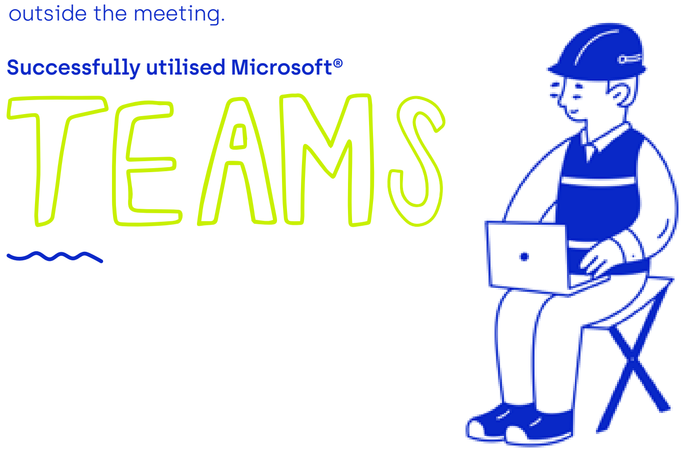
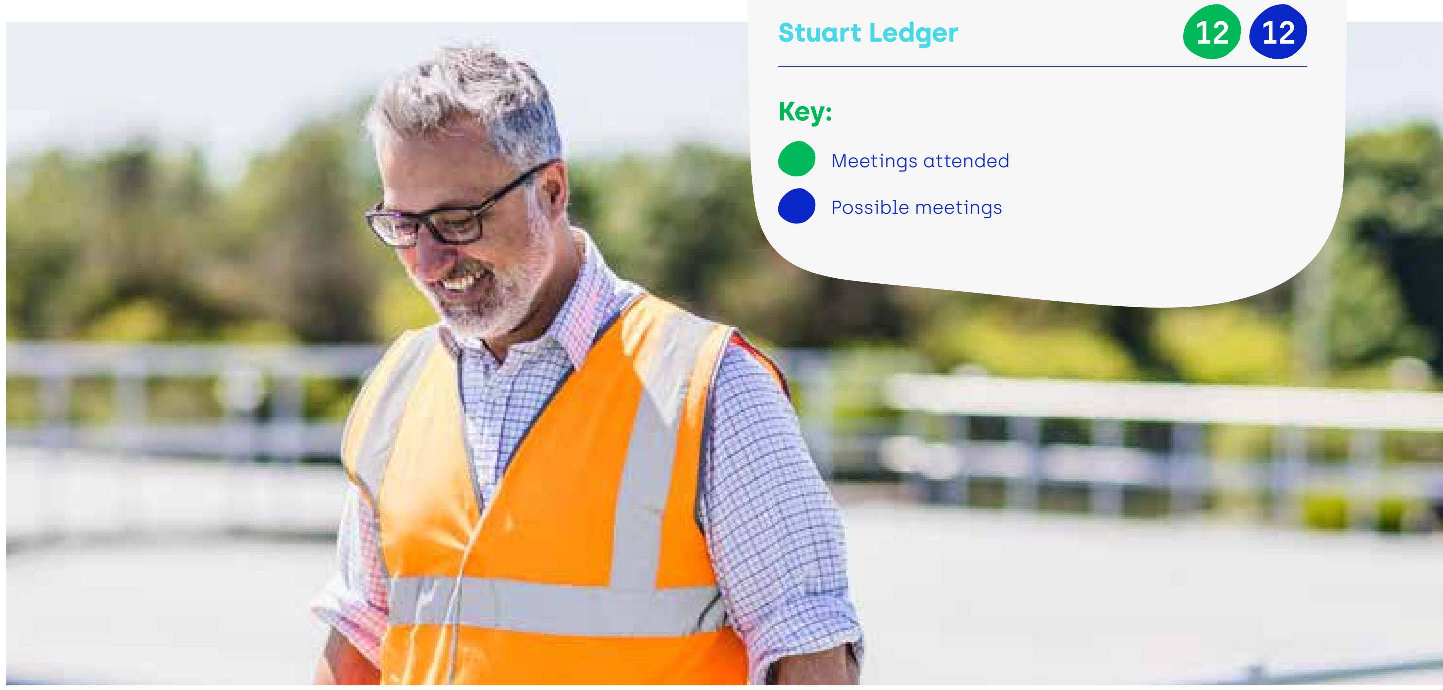


Board meetings

	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.

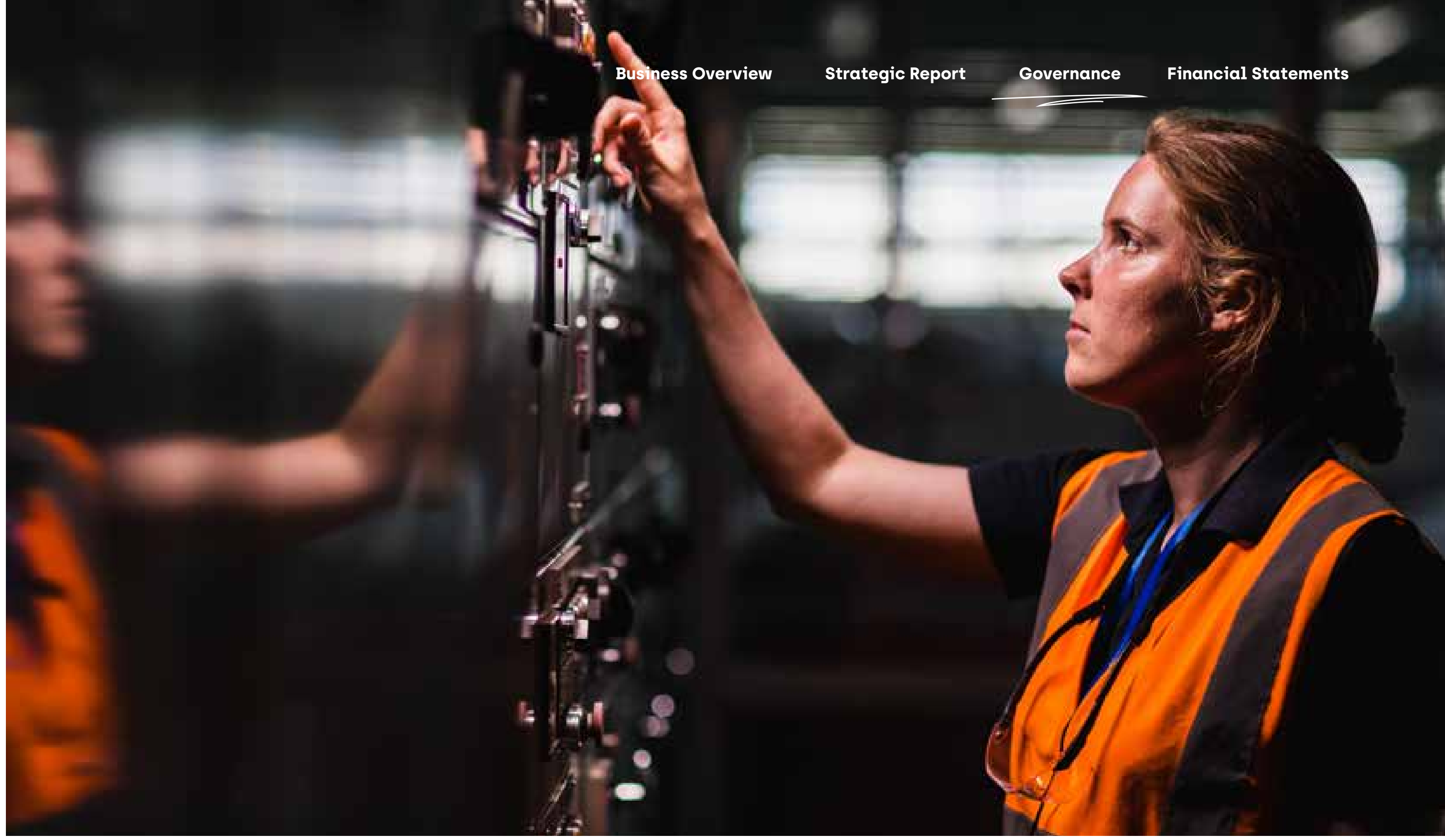
		Stuart Ledger	Ian Tyler	Trevor Didcock	Susan Hooper	Chris Newsome	Mark Horsley	Ann Bishop	Justin Read	Roxana Tataru	Angela Roshier	Tony Roper
Industry	Utility Industry / Network Experience	◆	✱	✱	●	◆	◆	◆	●	●	✱	●
	Relationships with Regulators	●	●	●	●	●	◆	◆	●	✱	✱	●
Corporate Governance	UK Corporate Governance	◆	◆	✱	◆	◆	◆	◆	◆	●	●	◆
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

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 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

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

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.

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

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

General	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.

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

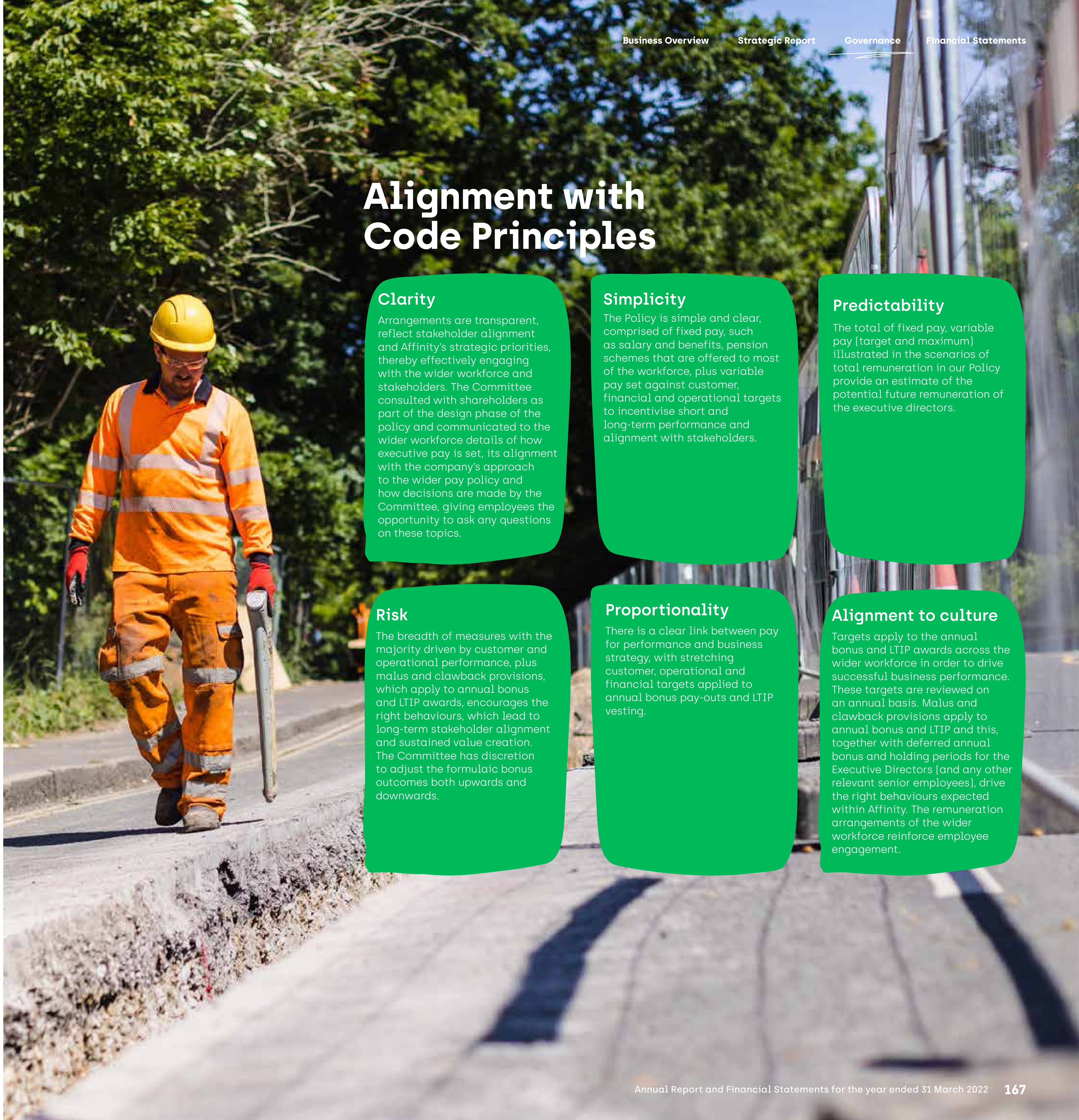
- High-quality pensions aligned across the workforce
- Flexible ways of working and wellbeing support

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.

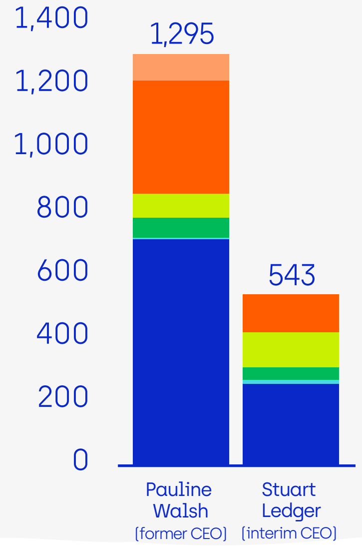
Remuneration report continued

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



Key

- Base salary/fees
- Taxable benefits
- Pension-related benefits
- Annual bonus
- LTIP vested
- Other

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

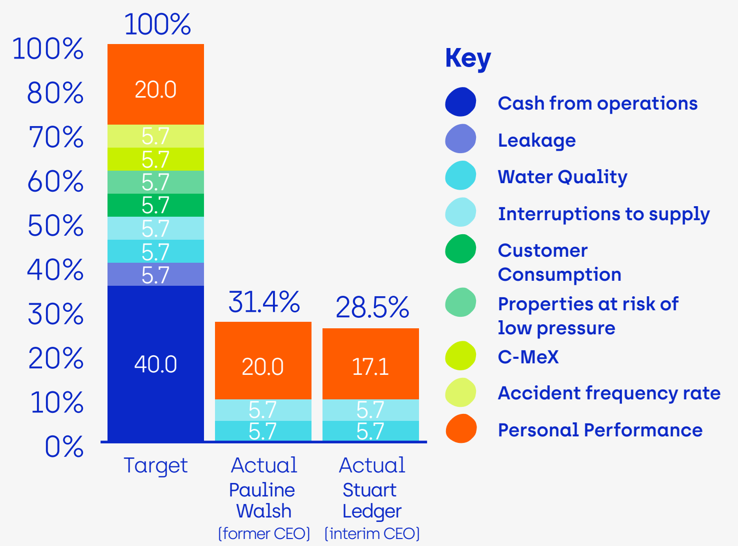
- Below threshold target
- Between threshold and stretch target
- At or above stretch target

* 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

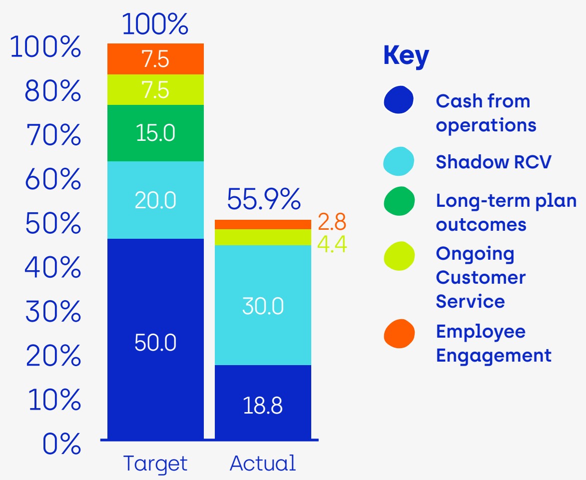


Actual amounts are calculated on a base salary of 100% for the CEO (Pauline Walsh) and 75% for the CFO (Stuart Ledger).

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.

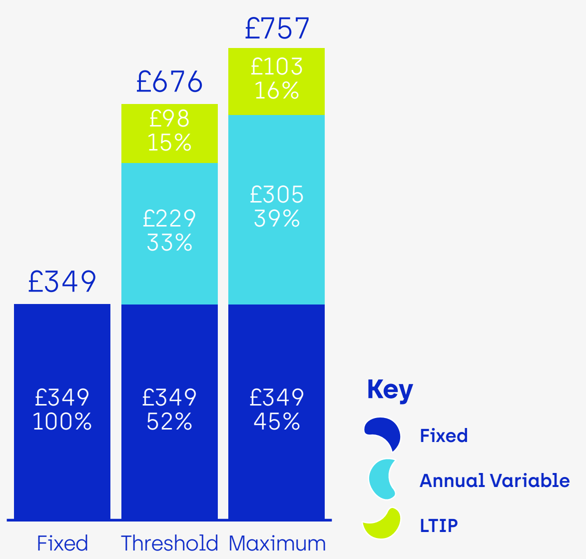
Circumstances of malus include wilful or gross misconduct, acts of personal dishonesty or fraud, conviction of certain criminal offences, conduct which results in significant losses to the company, material failure of related management or business units, material misstatement in the audited financial 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.

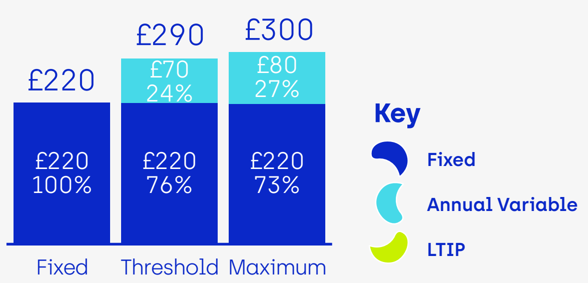
Pay-outs under different scenarios

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.

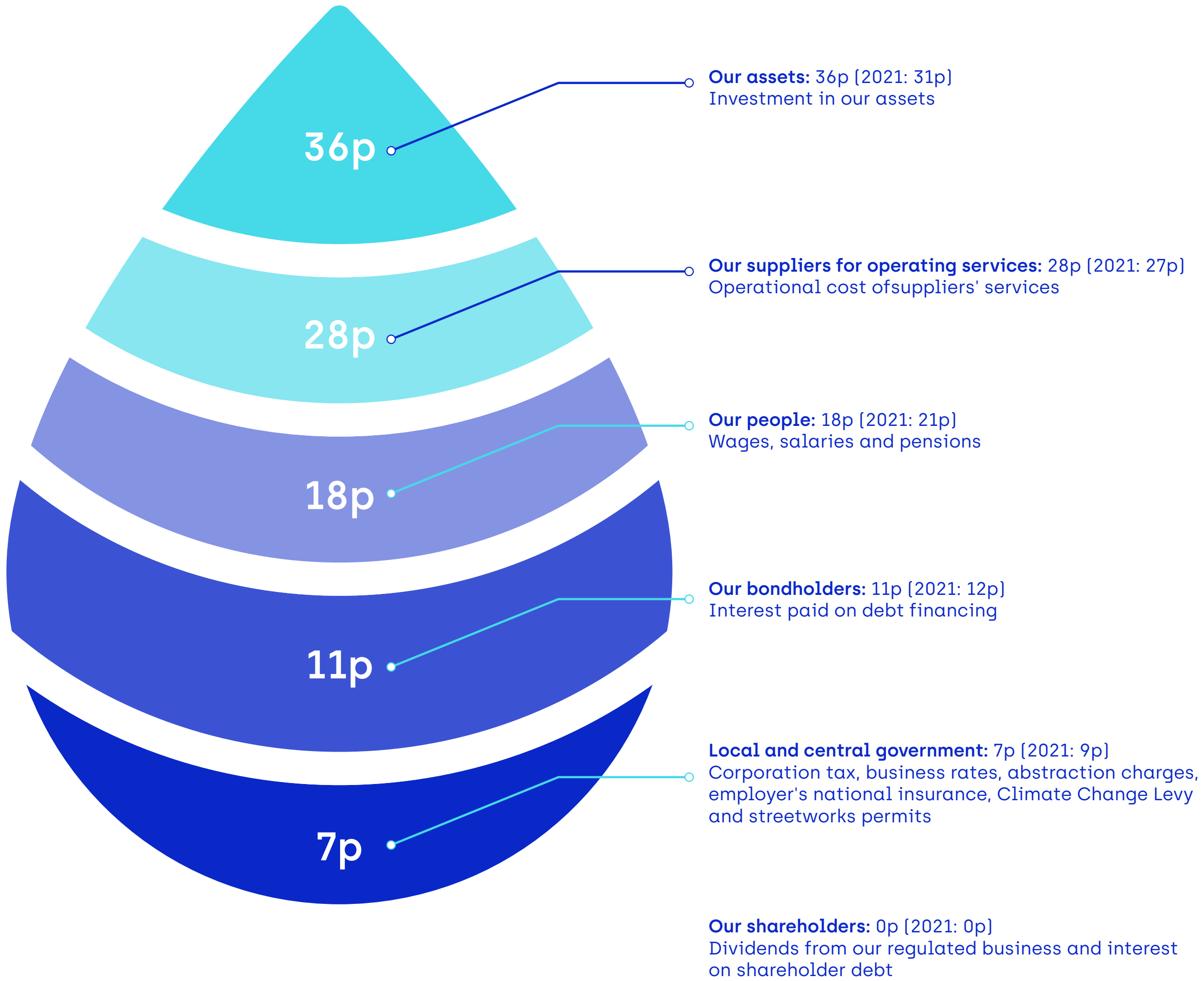
At the date of approval of this Annual Report and Financial Statements, the bonus targets for operational, customer and financial performance continued to be aligned with those in the schemes for senior managers and executives. This ensures there is a common focus across the business, particularly with 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:

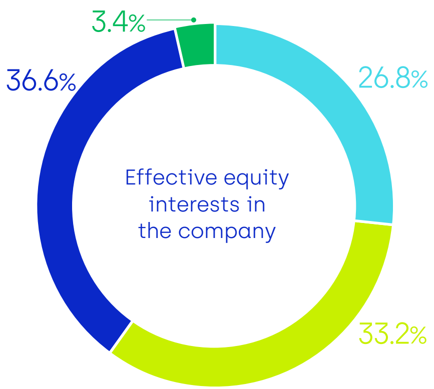
Trevor Didcock
Chair of the Remuneration Committee

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
- HICL Infrastructure plc
- Allianz Capital Partners
- 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:

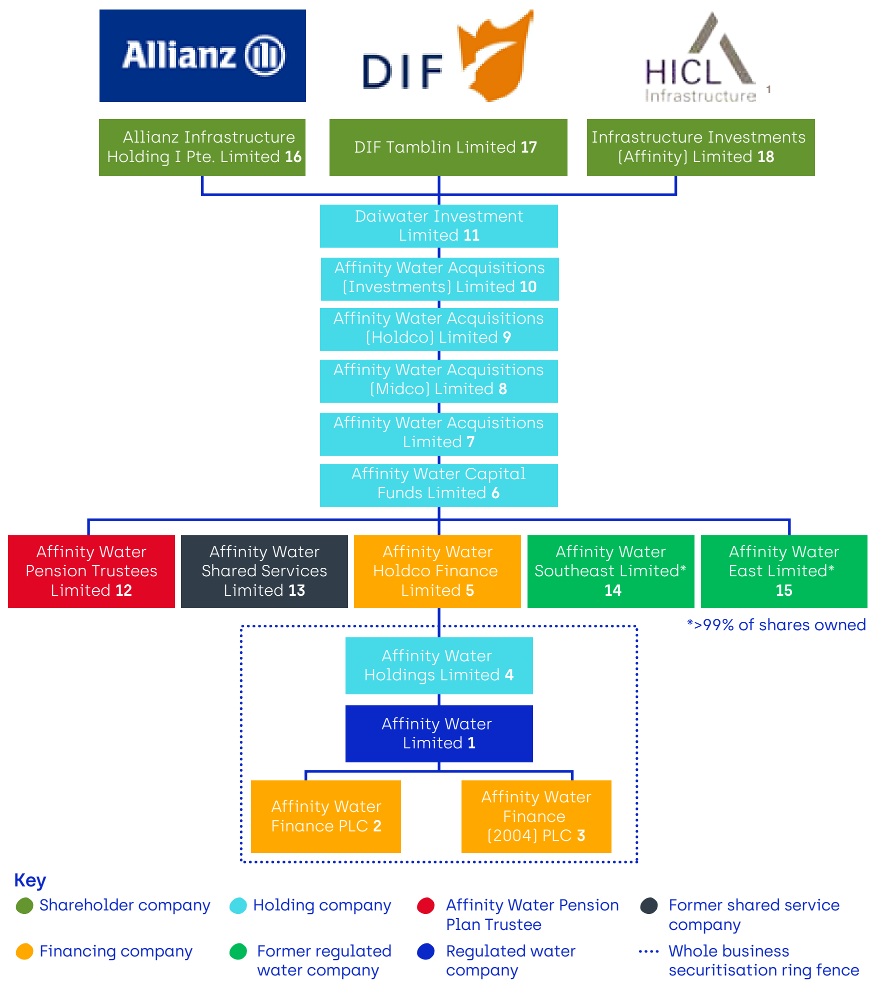
- Allianz Infrastructure Holding I Pte. Limited
- DIF Management Holding BV
- DIF Management UK Limited
- HICL Infrastructure plc
- Sun Life Financial Inc

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 the 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**		

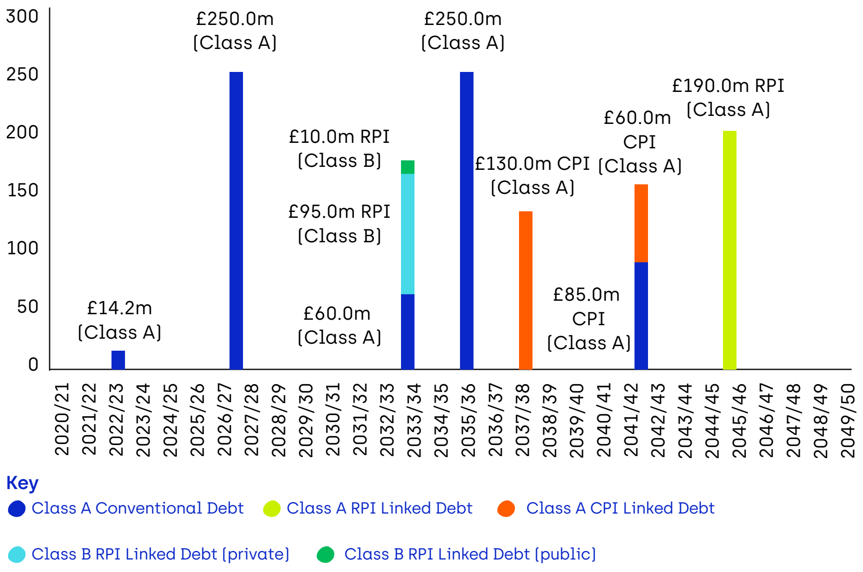
* Listed on the London Stock Exchange

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	2021/22 Gross[2] (tCO_2e)	2021/22 Intensity ($kgCO_2e$/Ml)	2020/21 Gross (tCO_2e)	2020/21 Intensity ($kgCO_2e$/Ml)
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.

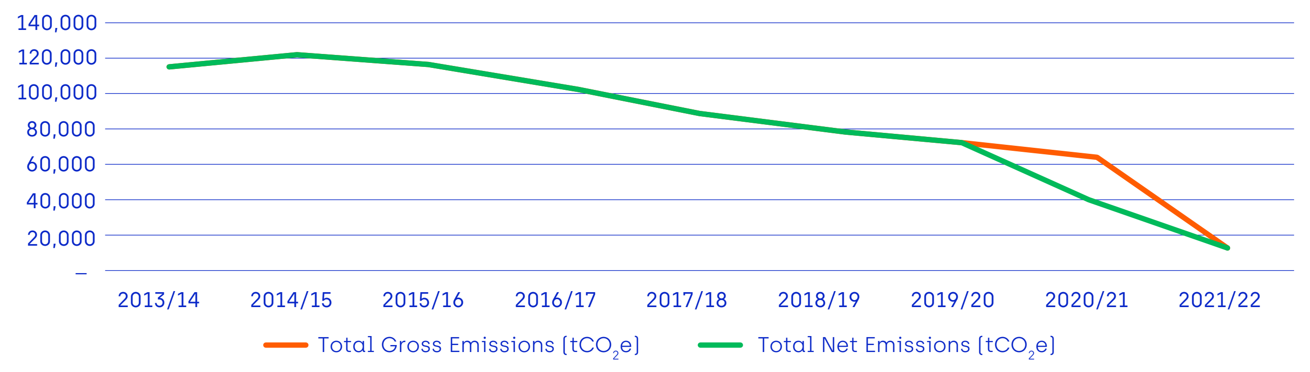
We have calculated the total quantity of GHG emissions, in tCO_2e (embedded carbon), for below ground asset installations and solar PV where projects have been completed in 2021/22.

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:

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Hertfordshire