

NORTHUMBRIAN
WATER *living water*

ESSEX & SUFFOLK
WATER *living water*

CRYSTAL CLEAR

Detailed guide to our finances

2020/21

GLOSSARY

Asset

An item of property owned by a person or company. For a water company this can be our network of pipes, treatment works and reservoirs.

Bond

A type of long-term borrowing.

Capital allowances

An expenditure that a UK business may claim against its taxable profit (eg. spending money on buying equipment). The allowance may be deducatable in one year or over several, allowing companies to delay payment of corporation tax until a time when the level of investment reduces.

Capital contribution

The amount of money or assets invested in the business by the owners. The capital contribution increases the owner's equity interest in the company.

Capital investment

The money invested in assets to enable a company like ours to deliver services to customers.

Dividends

The sum of money paid regularly (typically annually) by a company to its shareholders out of its profits or reserves.

Interest

The money paid at a particular rate for the use of money borrowed.

Investment grade credit ratings

Is the quality of a company's credit and shows if they are at low risk of a credit default, making it an attractive investment.

Principal intermediate holding companies

Companies between the ultimate parent company and the operating company.

Profit

The amount of money left over once the costs associated with running the business are taken into account.

Revenue

All incoming money received by a company, often through charges or bills.

Shareholders

A person or company that legally owns one or more shares in an organisation.

Tax

A amount of money a company is required to pay to the government on any profit made from business activity.

In this guide our aim is to give a clear explanation about our finances and governance. Let us know if you think we have succeeded or if you have any feedback by [joining our online community](#).

AT A GLANCE



Like most companies, we are financed through a combination of money from shareholders, profits and by borrowing money.



We are majority owned by companies based in Hong Kong who are responsible and committed investors in our business.



Like any investors, our shareholders expect a return on the money they put into our business but these dividends are not guaranteed. We make sure the dividends are set at a level which is sustainable, remains consistent with our investment grade credit ratings and allows us to continuously put money back into the business.



Our executive directors pay and benefits package is structured to attract and keep people of a high calibre but also reflects how well we are performing.



Our immediate holding company, NWGL, is based in the UK and pays corporation tax to the UK Government.



Our independent non-executive directors set us challenging targets and give support in their areas of expertise to our Board.



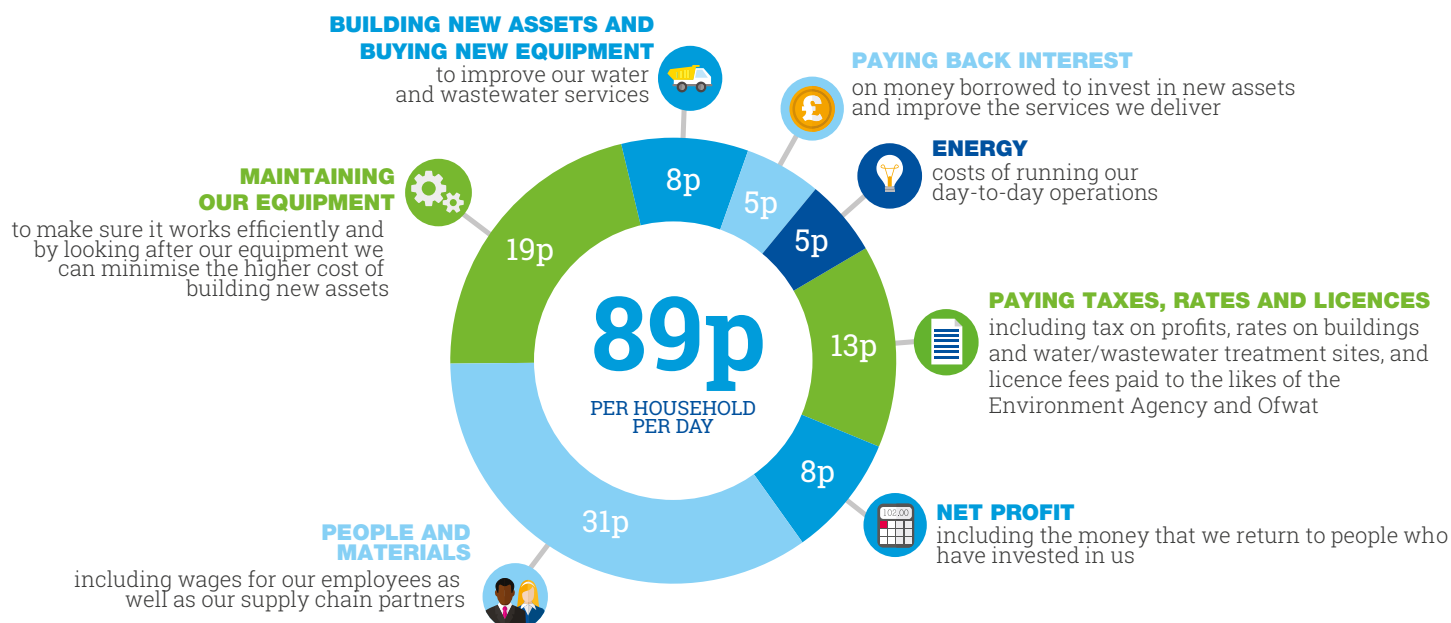
Customer Challenge Groups (CCGs), which we call the Water Forums, have a very clear role to challenge us on behalf of our customers and give Ofwat (our regulator) an unbiased view on how well we listen to customers and put them at the heart of our decision making.

AT A GLANCE

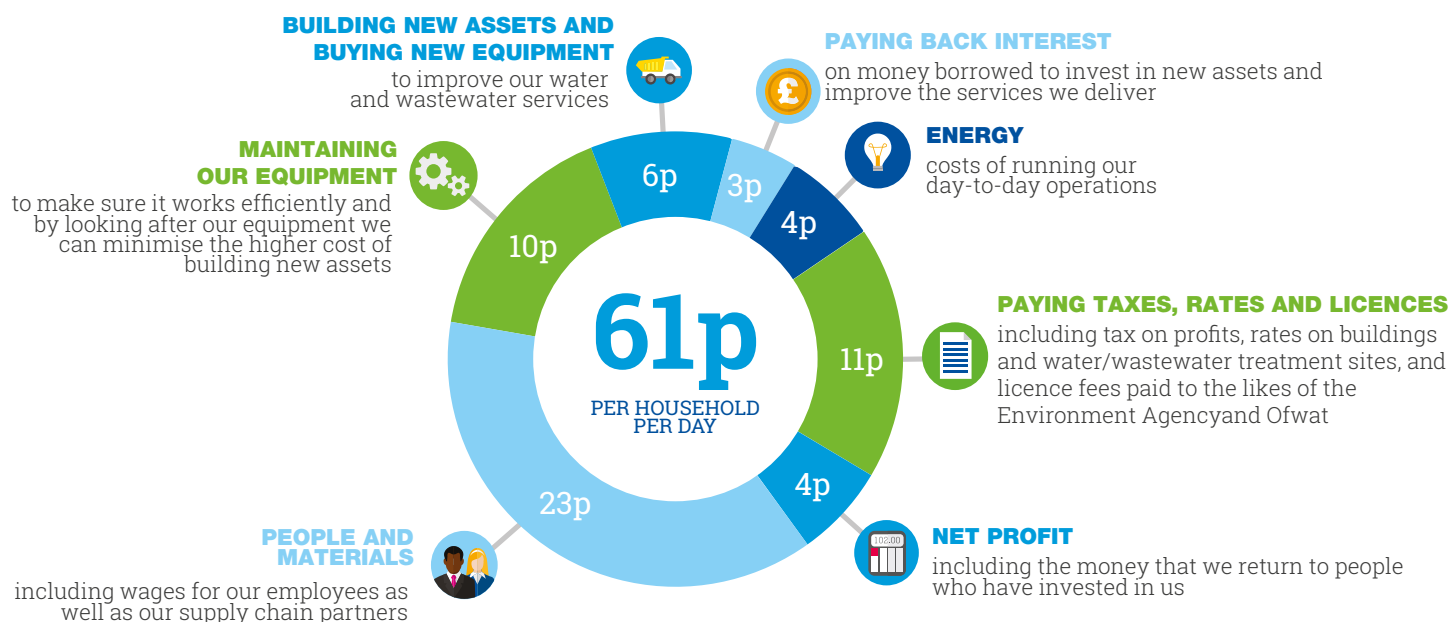
Our customers have told us that certain areas of our finances can be difficult to understand. We wanted to help by creating a document that provides you with a simple and easy way to understand how the company is financed and where your water and sewerage bill payment goes.

We held a co-creation workshop with customers to show them how this document could look. But thanks to their participation, they told us they would prefer a bill breakdown explanation with their annual bill, and for the rest of the detail to be housed online. If you are interested in having your say on topics like this, why not [join our growing online community?](#)

NORTHUMBRIAN WATER BILLS



ESSEX AND SUFFOLK WATER BILLS

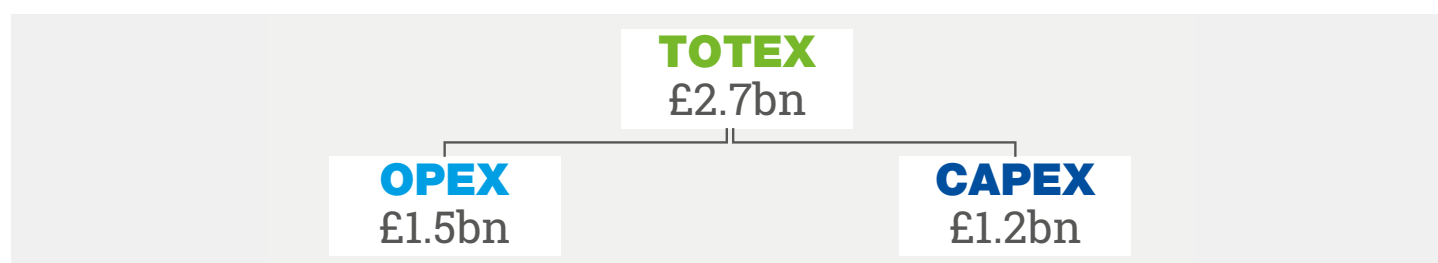


WHAT THE MONEY FROM CUSTOMER BILLS DELIVERS

Northumbrian Water (NW) provides water and sewerage services in the north east of England. Essex & Suffolk Water (ESW) provides water services only in the south east. We use the cash we collect from customer bills to:

- Run the company efficiently day-to-day, maintain and operate our equipment, pay our staff and supply chain partners and meet the energy costs of running our business. This is known as operational expenditure (Opex).
- Build new networks, reservoirs and treatment works, and invest in new equipment to improve our water and wastewater services. This could include things such as laying new pipes or sewers, building or renewing treatment works, or improving our renewable energy sources. This investment is known as capital expenditure (Capex).

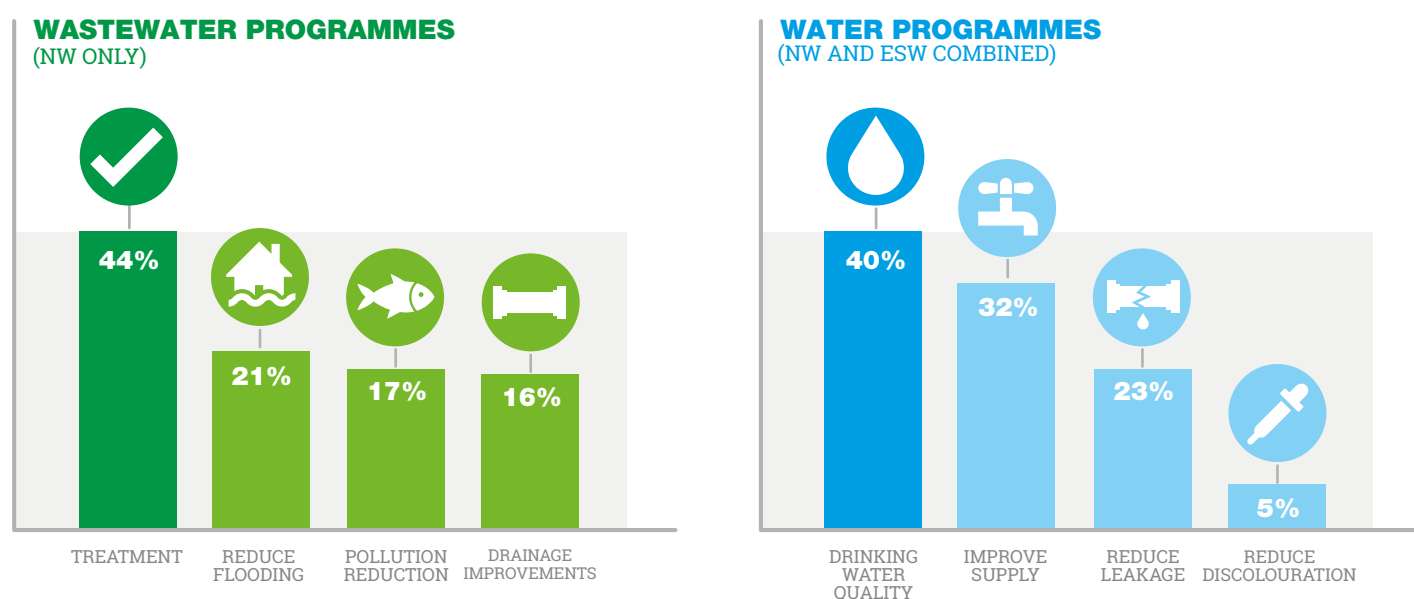
Opex and Capex together give us our total expenditure (Totex). In the period 2015-20 our income will allow us to spend Totex of around £2.7bn (in 2012/13 prices). One of our key commitments is to spend at least 60p in every £1 with suppliers in our regions.



MAKING IMPROVEMENTS FOR CUSTOMERS FOR 2015-20

Our Capex programme helps us to give great service to our customers. In 2015-2020, about three quarters of our Capex investment is going towards maintenance and a quarter is going towards improving our levels of service to our customers. In particular, we've been working hard to reduce the risk of flooding and at improving environmental performance.

The graphs below show the expected split of our investment between our main programmes.



How we spend is prioritised across the business to make sure that our structures and equipment perform efficiently and minimise the risk of anything going wrong. Capex in 2015-20 is being split between the water (46%) and wastewater services (40%) (NW only). The remainder (14%) is invested in support services such as the maintenance of our vehicles, IT systems and making sure sites, systems and customer data are secure.

SPENDING MONEY ON IMPROVEMENTS INCLUDES THINGS LIKE:

- Repairing old water pipes and sewers.
- A large refurbishment project at Horsley Water Treatment Works.
- Improvement to sewer management at Whitburn.
- Upgrading our Sewage Treatment Works at Aycliffe to support local growth.
- Replacing large equipment at Howdon Sewage Treatment Works.
- Energy efficiency initiatives at our Bran Sands site. Did you know we make [power from poo?](#)

WE KEEP OUR BILLS AS LOW AS POSSIBLE

Ofwat, our regulator, sets the amount of income we can charge to customers. This is done through a price review every five years. We develop a plan and agree it with Ofwat which helps protect and deliver continuous value for our customers.

In 2019/20, as in most years, we spend more than the cash we collect in bills, and we make this difference up through borrowing. Our spend last year totalled about £902m and our income was about £900m. By borrowing money we can spread the costs over today's and future customers, rather than being a big cost upfront to our current customers.

CATEGORY	DESCRIPTION	COST
Day-to-day operations	For £1.12 a day (NW) and 70p a day (ESW), we provide fantastic quality water to our 4.5m customers. We then take away wastewater, clean and treat it and return it to the environment. We have a network of nearly 26,000 km of water mains and nearly 30,000 km of sewers (NW only).	£542m
Financing	We pay interest on our debt and, as mentioned above, we keep customer bills low by spreading these costs over a long period. We also pay a dividend to our shareholders when the company meets its targets.	£112m
Long-term investments	We spend around £1m per business day improving our networks and equipment net of any large capital contributions.	£248m
		£902m

PROVIDING EXTRA SUPPORT

We have a wide range of services designed for customers who may need extra help and support. These include financial help, where we understand that life's ups and downs can have an effect on the money you have to pay your bills. We are dedicated to providing affordable bills to all of our customers based on their ability to pay. We also offer extra support via a range of free priority services to help make things a bit easier.

Water poverty is when a household spends more than 5% of its disposable income on their water bill. Water and sewerage services should be affordable for all of our customers, whatever their circumstances. Which is why we have committed in our Business Plan to eradicate water poverty in our operating areas by 2030.

Full details are available on the [Priority Services](#) section of our website.

BORROWINGS AND INTEREST

We invest around £1m per business day in improving our services for our customers. We boost the money from our customers through their bills by borrowing money from banks and debt markets – in 2019/20 this was about £41m.

We issue bonds to the debt markets and pay for some of our investments by short-term bank loans (less than five years) until we build up enough new debt to allow us to convert into a longer term bond issue. Our bonds are mainly publicly listed on the UK Stock Exchange and are sold directly to pension funds and other large institutional investors to who we pay interest each year.

The bonds benefit from our investment grade credit rating which helps reduce the rate of interest we pay, making sure our financing costs stay as efficient as possible for customers.

These credit ratings (given to us by experts) let us obtain financing at the most competitive and attractive interest rates, and the benefits of low funding costs flows into customer bills.

By keeping our debt well-balanced we are able to effectively manage risks of changes to inflation and interest rates and keep customer's bills stable.

Our total borrowings at 31 March 2020 amounted to £3.0bn.

WE PAY OUR TAXES

Another big cost to the business are taxes and regulatory costs. For example, in 2019/20 we made payments totalling £98m, mainly in respect of corporation tax, employer's national insurance, business rates and water abstraction and discharge consents.

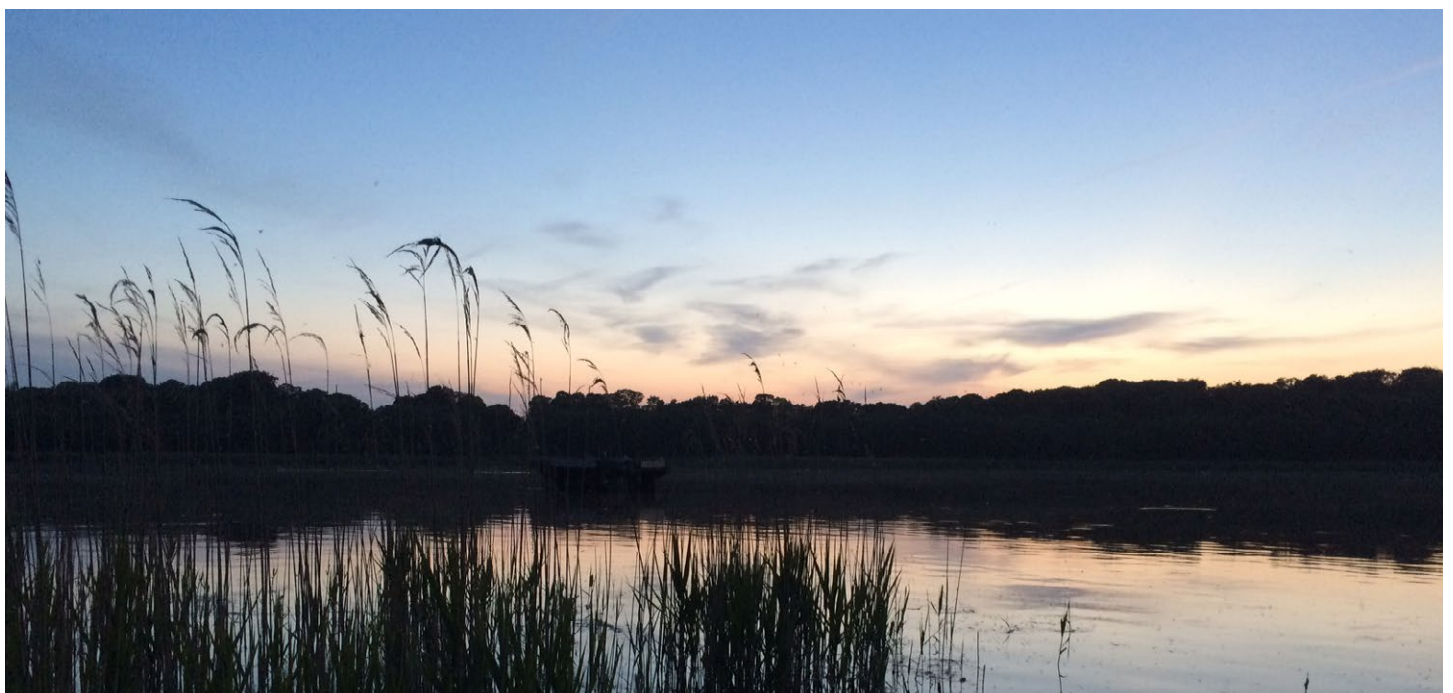
We are open and honest about our tax arrangements and publish [our Tax Strategy](#) on our website.

Our Business Plan includes an allowance for the corporation tax we expect to pay, just like any other operating cost. The plan contains our estimate of tax payments that reflect the benefit of tax reliefs that are available to us and known future rates of tax. This helps us to keep the cost of customers' bills down.

We pay corporation tax on our profits after taking into account reliefs that are available to all companies under the UK tax system. The calculation of our taxable profits includes deductions for interest on our borrowings, capital allowances on money we invest in improving our infrastructure networks, and tax losses made available to us by other group companies. Tax is paid in four instalments annually based on the current tax charge in our [Financial Statements](#).

The capital investment we make brings benefits to our regions. We've been investing more than £200m a year over the last five years in our communities. This is likely to increase over the coming five year period 2020-25 and is a significant factor in determining how much tax we pay now and in the future. The capital allowances system helps save the company tax in the present, but it will result in tax being paid in the future.

The availability of capital allowances in 2019/20 resulted in customer bills, on average, being lowered by approximately £8 for customers of ESW and £15 for customers of NW.



DIVIDENDS

The profit we generate is driven by how efficiently we can run the business to deliver our commitments for our customers. After deducting operating costs, financing costs and tax from our revenues we are left with our profit. Profits can be either given to shareholders or and reinvested back in the business.

Our shareholders have provided all the necessary capital and financial backing required to run the business and in return they receive a dividend return on the capital they have invested. The dividends we can pay are driven by our financial and operational performance, the level of service provided to our customers, and employee's interests, so the returns our shareholders receive are not guaranteed from one year to the next. There are many significant risks associated with the business. Shareholders, rather than customers, carry the weight of these risks.

We make sure the dividends are set at a level which is sustainable, remains consistent with our investment grade credit ratings and allows us to continuously put money back in the business.

Northumbrian Water Limited (NWL) is one company within the wider Northumbrian Water Group Limited (NWGL) Group. NWGL is owned by three shareholders:

- CK Infrastructure Holdings Limited
- Cheung Kong (Holdings) Limited
- Li Ka Shing Foundation Limited

SETTING DIVIDENDS

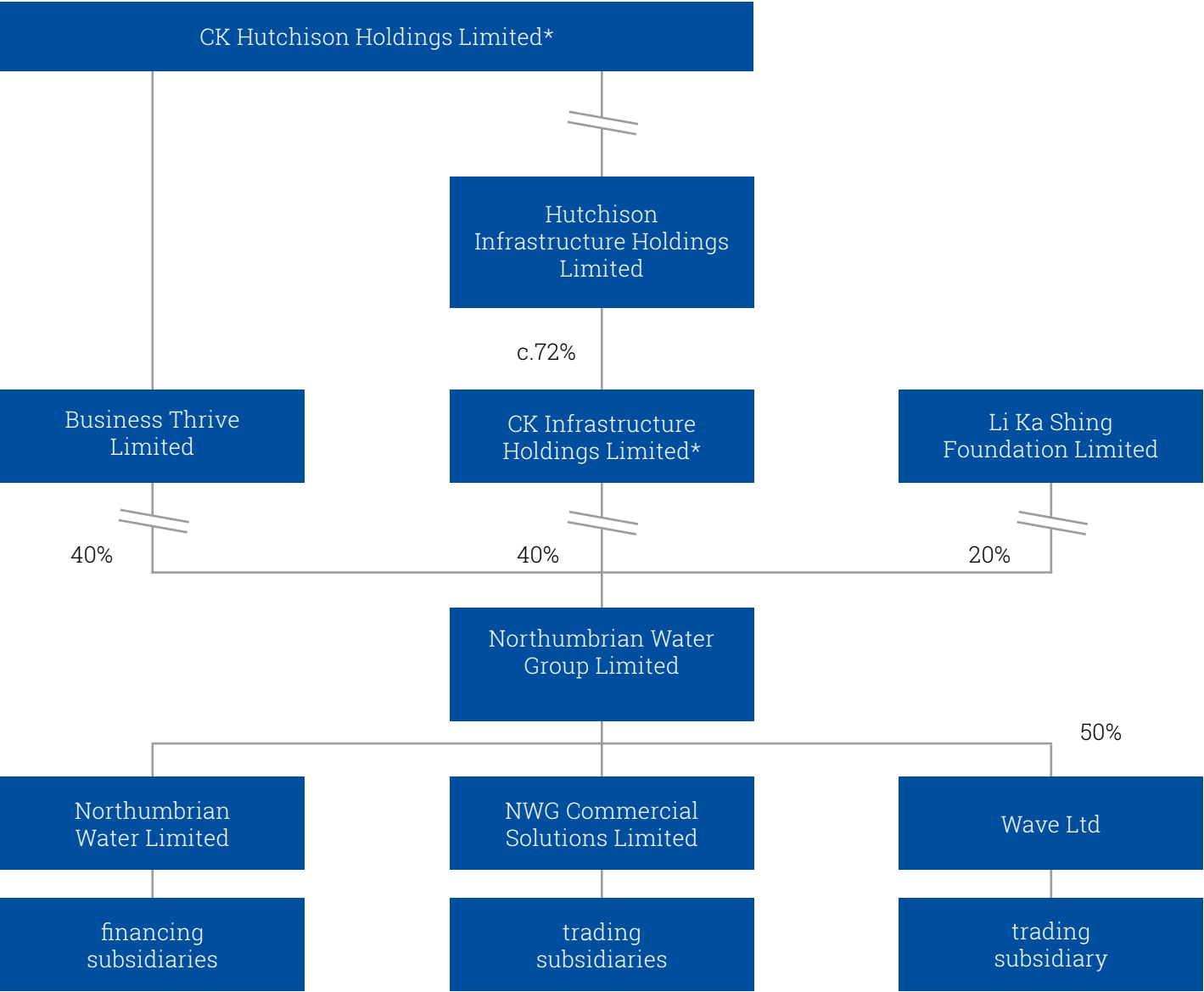
The value of the dividends we pay shareholders are agreed by the Board to take into account how well we are performing against a range of targets. Similarly, the Board also considers how well we are performing against our commitments to our customers and our budget performance. When all of these have been taken into account the level of dividends are agreed.

EXECUTIVE PAY

The Remuneration Committee oversees the amount of money that is paid to executive directors and senior management. The decisions that are made are around what is paid to new directors, and the bonuses and long term incentives that are paid to senior management. It is important that the right balance is struck by attracting and keeping talent, ultimately with customers' interests at heart. To strike this balance, executive directors have annual and longer term targets relating to customer service, performance and sustainability, alongside personal targets. The amount they receive is dependant on their performance in all of these areas.



OUR STRUCTURE



***Companies listed on the Hong Kong Stock Exchange.**

The simplified structure chart above shows the structure of Northumbrian Water Group up to CK Hutchison Holdings Limited (CKHH), which we currently regard CKHH as the ultimate parent undertaking and controlling party of NWGL and, therefore NWL.

The chart shows the principal intermediate holding companies, which are wholly owned unless otherwise shown (the percentage values represent the economic interests).

IN THE YEAR ENDED 31 MARCH 2020:

- NWL paid dividends of £65m to NWGL.
- £121m was distributed to the shareholders as a return on their £2.4bn investment in NWGL through a combination of dividends and interest.

LOOKING FORWARD TO 2020-25

We have published our Business Plan for the period 2020-25, the plan has been structured across six key themes to deliver the outcomes that matter most to our customers. These six themes are focused into 14 ambitious goals.

UNRIVALLED CUSTOMER EXPERIENCE

1. Deliver world class customer service.
2. Give every single customer the opportunity to have a strong voice and engage with us, with at least 2 million customers participating by 2025.

AFFORDABLE AND INCLUSIVE SERVICES

3. Eradicate water poverty in our operating areas by 2030.

RELIABLE AND RESILIENT SERVICES

4. Have the lowest levels of leakage in the country in our water-stressed Essex and Suffolk area.
5. Have a per capita consumption (PCC) for water use of 118 litres per person per day by 2040.
6. Promote confidence in our drinking water so that nine out of ten customers choose tap water over bottled water.
7. Eradicate sewer flooding in the home as a result of our assets and operations.

LEADING IN INNOVATION

8. Be leading in innovation within the water sector and beyond.

IMPROVING THE ENVIRONMENT

9. Be leading in the sustainable use of natural resources, through achieving zero avoidable waste by 2025 and being carbon neutral by 2027.
10. Demonstrate leadership in catchment management to enhance natural capital and deliver net gain for biodiversity.
11. Have the best rivers and beaches in the country.
12. Have zero pollution as a result of our assets and operations.

BUILDING SUCCESSFUL ECONOMIES IN OUR REGIONS

13. Spend at least 60p in every £1 with suppliers in our regions.
14. Be the most socially responsible water company.

