Northumbrian Water Limited Annual Report and Financial Statements

for the year ended
31 March 2021

NORTHUMBRIAN WATER *living water* | ESSEX&SUFFOLK WATER *living water*

Registered company number 02366703

Annual Report and Financial Statements
for the year ended 31 March 2021

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Strategic Report

Chairman's statement

For most of our customers, Northumbrian Water Limited (NWL or the Company) is the only available supplier of essential water and wastewater services.

The Board therefore recognises that we carry very significant responsibilities and must strive to meet the high expectations of everyone we serve and work with. The Board challenges itself and the Company's employees, to deliver improved performance each year, so that our customers' high expectations can continue to be met.

Our vision to be the national leader in the provision of sustainable water and wastewater services has not changed. However, following extensive work with stakeholders, we have taken the opportunity to further refine our statement of 'Purpose', which is set out on **page 12**. It captures how we care for the communities and environment in which we operate, now and in the future, and the positive difference we make by prudently investing over the long term to create a sustainable and resilient business.

It is a primary duty of the Board to balance the interests of all our stakeholders fairly, whilst meeting our fiduciary duties as directors. As Chairman, I believe the Board strikes the required balance very well, assisted by the robust governance arrangements we have in place, which are set out in detail in our Corporate Governance report.

"Our business has been built to be resilient and adaptable

Our business has been built to be resilient and adaptable. Every year we face a range of challenges, often relating to the climate and weather, but the COVID-19 pandemic has provided a new set of very significant issues to test us in different ways. The whole country has suffered unprecedented economic upheaval, and our customers and employees have had to deal with the impact of the pandemic on themselves, their families and their working lives. I was hugely impressed by the swift and professional response of all our teams at the start of the pandemic and this effort has been sustained, enabling our main operational activities to continue substantially as normal.

This resilient and strong performance is underpinned by our five strategic themes: Customer, Environment, Competitiveness, People and Communities. At each meeting, the Board has reviewed performance against a balanced scorecard of measures related to these strategic themes in addition to health and safety, financial performance and other key factors. A more detailed overview of our work and progress on these themes is set out later in this Strategic Report.

Our Chief Executive Officer (CEO), Heidi Mottram, describes in her Review our continued strong performance delivered against existing commitments but, importantly, we have also made a solid start in the first year of delivering our 2020-25 Business Plan (our Plan).

As I reported last year, and following unanimous agreement from the Board, in February 2020 the Company asked Ofwat to refer its PR19 Final Determination (Ofwat FD) for redetermination by the Competition and Markets Authority (CMA). The CMA delivered its Final Determination (CMA FD) on 17 March 2021. This set out a number of adjustments to the Ofwat FD, including enabling NWL to progress its scheme to address the resilience of water resources in Essex. With the CMA process now concluded, the final parameters for the 2020-25 regulatory period are set, and we look forward to working with Ofwat in delivering on our Plan.

As ever, it is our people who are our 'front-line' and NWL's performance depends entirely on their continued engagement, initiative, innovation and hard work. I would again like to offer my sincere thanks to all our employees for their dedication and commitment this year, in particular given the continuing challenges posed by COVID-19.

Finally, we have taken the opportunity to refresh the membership of the Board this year, which addresses Ofwat's requirements for the rotation of Independent Non-executive Directors (INEDs). I would therefore like to welcome our new INEDs Richard Sexton, Bridget Rosewell and Alan Bryce who joined the Board in April and Jacqueline McGlade and Peter Vicary-Smith who joined in July. They bring a wide range of relevant expertise and experience, which will help the Board continue its efforts to drive further improvement in our services to customers and the Company's efficiency.

At the same time I would like to express the Board's sincere appreciation for the longstanding valuable contributions of our outgoing INEDs Margaret Fay and Simon Lyster, who retired from the Board in April, and Martin Nègre who stepped down in July. We wish them all well for the future and I am happy to confirm that Paul Rew will continue as Senior INED until November this year. I would also like to thank Ceri Jones, who stood down as Assets & Assurance Director in October 2020, for his many years of excellent service to the Company.

A J Hunter
Chairman

Chief Executive Officer's review

Our vision is to be the national leader in the provision of sustainable water and wastewater services. I am delighted that we have made further progress towards this vision during 2020/21, under incredibly challenging circumstances, and remain one of the leaders in our industry.

COVID-19 Resilience

This has been a unique year with much of it spent in lockdown and under COVID-19 restrictions. We provide vital services, but the importance of these has never been more apparent than during the pandemic. I am extremely proud of the way our teams have responded to the challenge and kept our essential services running for our customers and the communities we serve. This has been a fantastic effort and shown the resilience of both our people and our operations.

Our first concern has been for the safety of our employees and customers and we have taken every precaution to ensure that we carried out our operations securely. We took appropriate steps to ensure that our operational and field workers could carry on their work in a COVID-safe way with social distancing and protective equipment as required. Around half of our staff, in customer and support roles, have worked from home throughout the year and our significant investment in technology in recent years has made this transition very smooth, allowing teams to continue working productively and collaboratively.

I am also proud of how we have worked with the government and local authorities to support testing and vaccine roll out. We were the first water company in the country to launch a rapid testing programme with employees and piloted a scheme for asymptomatic testing to be carried out across our workforce. Working with Newcastle University, we played a leading role in analysing wastewater to track the presence of COVID-19 in localities. We supported the set up of the Nightingale Hospital in Sunderland, which is now being used as a vaccination centre, and even gave our head office over to the NHS for use as a vaccination centre for Durham.

Our Performance in 2020/21

We set out our ambitious goals for the 2020-25 period in Our Plan, reflecting the feedback from our customers. This has been the first year of delivering against those goals and the tough performance commitments we have made. Overall, I am pleased with our performance. We have exceeded our targets in many areas and remain one of the top companies for customer service, are leading on pollution and have regained our 4* status on Environmental Performance Assessment (EPA) from the Environment Agency (EA). However, we are always striving to do better and were disappointed to fall short on leakage and water quality.

Customer

Ofwat introduced a new Customer Measure of Experience (C-MeX) in the year to measure customer service performance. This is a more representative measure of how customers experience our service and performance and we were pleased to come in the top three for C-MeX, with scores very tightly bunched at the top, though our ambition is to provide unrivalled customer service.

We have set an ambitious goal to eradicate water poverty in the regions we serve by 2030, and the importance of this was brought into even more focus during the pandemic as many of our customers faced financial uncertainty.

We took an early decision to offer payment breaks to many of our customers to give them breathing space and have been able to extend the scope of our social tariffs to allow us to make support available to more of our customers who need it.

Water

In our water business we remain industry leading on minimising interruptions to supply and have made great progress on the taste and appearance of water delivered to our customers' taps. We have also continued to focus on ways to reduce leakage from our networks and were on track to achieve our targets until we experienced some extreme cold weather over the winter which pushed our results above target.

The water we deliver to our customers is of high quality and this is always one of our top priorities. The Drinking Water Inspectorate (DWI) rightly sets extremely high standards and a small number of issues in the year caused us to miss our target on their Compliance Risk Index measure. We are working actively with DWI on a Transformation Plan to identify ways in which we can improve across the whole end to end water process, from source to tap.

Environment

Our environmental performance has remained strong this year and I was delighted that we achieved a 4* EPA from the EA. We continued to be at the forefront of the industry in minimising pollution incidents, an area of particular public interest at present. Sewer flooding remains one of the worst service failures our customers can experience and we have made significant progress in tackling this through both investment in our assets and education of customers through our Bin The Wipe campaign. I was pleased that we have shown further reductions in both internal and repeat sewer flooding incidents and we are committed to our ambitious goal of eradicating sewer flooding in the home as a result of our assets and operations.

Another of our ambitious goals is to achieve net zero carbon emissions by 2027 and it was a great achievement to reduce emissions by more than three times our regulatory commitment in the year. We are continuing to invest in renewable generation as well as seeking to reduce emissions further through transforming our vehicle fleet.

Our People and the Communities we serve

While our focus is to deliver unrivalled service to our customers and benefit the communities we serve, it is always heartening to gain external recognition. I was delighted that we were named Water Company of the Year at the 2020 Water Industry Awards, which recognised all-round excellence in customer service, innovation, operational resilience and workforce best practice.

In addition we were named on the World's Most Ethical Companies list, compiled by the Ethisphere Institute, for the tenth time, and were the only water company recognised. This reflected our work in our communities, supporting our people and embedding an ethical approach and a strong sense of purpose in our culture.

These achievements are the result of the hard work that our people put in every day, even under the most difficult of circumstances we've experienced this year. That's why I was so pleased that the feedback from our employees through our Great Place To Work (GPTW) survey showed an increase in trust and engagement which brought us into the top 25 of best workplaces in the UK, for 'super-large' companies.

Financial Performance

In Our Plan for 2020-25 we committed to significant reductions in customer bills and, following the Ofwat FD, our customers in the North East received an average reduction in their combined bill of around 20%, while our customers in Essex & Suffolk received a 12% reduction on their water-only bills.

As the Chairman has said in his statement, we asked Ofwat to refer its FD to the CMA as we didn't think it adequately reflected what our customers said were their priorities. This was a long and detailed process but the overall outcome provided a more appropriate rate of return and additional funding for some important activities, including a scheme to improve the resilience of water supplies in Essex for the long term. However, we were disappointed that our request for additional funding for sewer flooding was not approved.

The COVID-19 pandemic has also created some financial pressures, with reduced activity from many business customers and increased costs to ensure that we continued our operations safely.

However, our financial position remains robust and we were reassured by retaining our independent credit ratings following the outcome of the CMA process.

Looking Forward

We have taken the first steps towards the ambitious goals we set ourselves in Our Plan and will continue to drive these forward over the coming year. I know we are building on strong foundations in areas such as customer service and environmental performance and in many aspects of our water business. Equally we know we have to improve our performance across areas such as leakage and water quality and must continue to address sewer flooding, in order to meet our stretching Performance Commitments (PCs) and achieve our vision to be the national leader in our industry. We will also progress our longer-term goals, investing in the resilience of our assets and pursuing our goals to reduce carbon emissions and waste.

As the world hopefully moves on from the global pandemic, we are committed to building back better. We are conscious of the financial consequences that some of our customers will face and will continue to provide support to all with affordability challenges. I also believe that the way we have managed through the restrictions, and the resilience we have shown, has created some new opportunities and we will embrace the prospect of a more flexible and adaptable business and workforce in the future.

We are proud of our achievements to date, but we are never complacent and will continue to make further service improvements in 2021/22 and beyond. I hope you find our Annual Report and Financial Statements helpful and informative.

H Mottram CBE
CEO

This **Annual Report and Financial Statements** is just one of a suite of documents we have published to provide our stakeholders with easily accessible information on our performance and governance. We have also published:

Annual Performance Report: setting out how we have performed against the commitments we made in our Business Plan for 2020-25 and how we are continually striving to improve the services we deliver to our customers and our business Outcomes.

Data Assurance Summary: explaining how we ensure that the information we report is accurate, clear and transparent and deliver against the commitments in Our Assurance Plan.

Our Purpose: presenting the social, environmental and economic impact we have on the communities we serve.

All of these documents are available on our website at: **www.nwg.co.uk**.

Business overview

Our vision is to be the national leader in sustainable water and wastewater services.

We provide water and wastewater services to our customers in the North East of England, trading as Northumbrian Water (NW), and water services only to our customers in the south east of England, trading as Essex & Suffolk Water (ESW).

We employ over **3,000** people

NW supplies water and wastewater services to **2.7 million** people in the major population centres of **Tyneside**, **Wearside** and **Teesside** as well as the large rural areas of **Northumberland** and **County Durham**. We provide wastewater services only in **Hartlepool**.

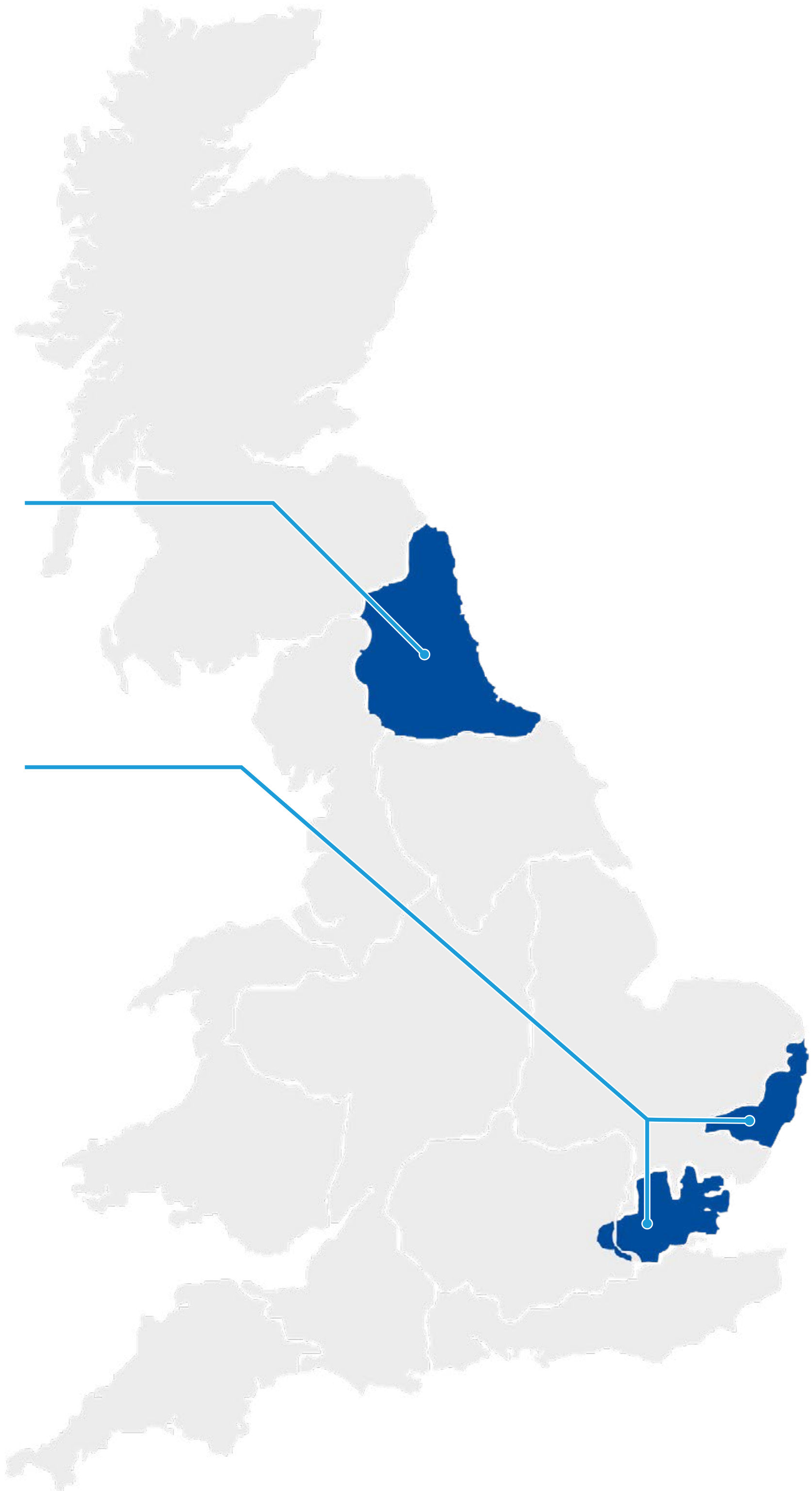
ESW supplies water services to **1.6 million** people in **Essex** and **0.3 million** in **Suffolk**. Our Essex area is part rural and part urban and includes the main population centres of **Chelmsford**, **Southend** and the **London Boroughs of Barking and Dagenham** and **Havering and Redbridge**. Our Suffolk area is mainly rural with the largest towns being **Great Yarmouth** and **Lowestoft**.

We operate and maintain:

- **53** water treatment works;
- **394** water pumping stations;
- **341** water service reservoirs;
- **26,200km** of water mains;
- **410** sewage treatment works;
- **1,007** sewage pumping stations; and
- **30,106km** of sewers.

Every day we supply **1.1 billion** litres of water.

NWL is part of the Northumbrian Water Group (NWG or the Group). Further information about the structure and ownership of NWG is provided on **page 51** of this report.



Our highlights

COVID-19 Resilience of Services
Keeping essential services running ensuring customers could speak to an adviser; 1st water company to launch rapid testing programme

Water Company of the Year 2020
Water Industry Awards - recognised for all-round excellence

C-MeX - top 3
Ranked 2nd overall for customer experience and 3rd for customer satisfaction

Industry Leading Pollution Incidents
Best performance in the industry on pollution management, with just one incident in Category 1 or 2

Greenhouse Gas Reduction
Delivered 3x our regulatory commitment driving us towards achieving net carbon zero by 2020

COVID-19 Customer and Community Support
More than 8,000 payment breaks plus 9,779 receiving extra support

Ethisphere - World's Most Ethical Companies
Recognised for 10th time and only water company on the list

Industry Leading Interruptions to Supply
Our customers experienced the least interruptions to their water supply in the industry

EPA 4*
Delivered the highest possible rating and best in industry on the Environment Agency assessment of environmental performance

Great Place to Work Trust Index
Score of 70% and 25th Best Workplace in UK

Business model

OUR PURPOSE

Caring for the essential needs of our communities and environment, now and for generations to come.

We do this by providing reliable and affordable water and wastewater services for our customers.

We make a positive difference by operating efficiently and investing prudently, to maintain a sustainable and resilient business.

OUR VISION

Our Vision is to be the national leader in the provision of sustainable water and wastewater services.

OUR STRATEGIC THEMES

CUSTOMER

ENVIRONMENT

COMPETITIVENESS

PEOPLE

COMMUNITIES

OUR VALUES

CUSTOMER FOCUSED

ONE TEAM

RESULTS DRIVEN

ETHICAL

INNOVATIVE

OUR REPUTATION

Our Purpose

Our Purpose

We took a decision last year to take our Purpose forward by looking again at our Purpose statement. Our aim was to re-define it in way that powerfully communicates our ethos, and generates a deeper understanding and sense of ownership among our people and stakeholders.

In order to do this, we engaged with Business in the Community (BITC), the Prince of Wales's responsible business network, who have supported hundreds of businesses in the past five years to create and embed their purpose. BITC worked alongside us to co-create a process in order to investigate how our Purpose statement should be developed.

Our process involved desktop research to look at our own activity and best practice; interviews with senior leaders; a business-wide employee survey; engagement through our Have Your Say customer forum; workshops with both employees and customers; and discussions with our Water Forum.

Through this, we identified a set of principles that were valued by our stakeholders, including the importance of demonstrating our place within our community and environment, and providing reassurance as a provider of an essential service relied on by our customers. We also tested language and identified some of the key concepts that resonate with our stakeholders.

Our new Purpose statement gives us a powerful, relevant and shared understanding of why our Company exists. This sits alongside our vision – setting out what we want to achieve – and our Values – setting out how we will behave in order to deliver this – as part of a comprehensive business model.

In the months ahead we will look to embed our Purpose in the business. This will include ensuring it is reflected in decision making through processes including our service value framework.

The next stage will be to effectively measure and transparently communicate how well we implement our Purpose. As part of our suite of annual corporate reports for 2020/21 we will publish an Our Purpose report describing our progress. In future years this will contain a consistent set of measures enabling stakeholders to understand how we live out our Purpose.

Our Values

Alongside this, we have begun work to refresh our Values. These are well recognised and understood across the business, but we want to make sure they take account of the insights gathered while developing our new Purpose statement and fit with wider societal changes.

As a first step, we have changed the previous 'Creative' value to 'Innovative'. This is more in keeping with the language we use around the business, particularly since the growth of our Innovation Festivals, and has therefore come to represent something more people relate to and can identify with.

In the months ahead, our intention is to refresh and simplify the definition and behavioural framework sitting behind all our Values, using insight from our people to make these inclusive, current and memorable to colleagues at all levels.

Our Outcomes: 2020-25

We created Our Plan for 2020-25 to deliver the outcomes that matter most to our customers.

Unrivalled Customer Experience

- Our customers tell us we provide excellent customer service and resolve issues quickly
- Our customers say they feel informed about the services we provide and the importance of water
- Our customers say we are a company they trust
- Our finances are sound, stable and achieve a fair balance between customers and investors

Reliable and Resilient Services

- We are resilient and provide clean drinking water and effective sewerage services, now and for future generations
- We always provide a reliable supply of water
- Our drinking water is clean, clear and tastes good
- Our sewerage service deals with sewage and heavy rainfall effectively

Affordable and Inclusive Services

- Our customers say our services are good value for money and we work hard to keep water and wastewater services affordable for all

Leading in Innovation

- We are an innovative and efficient company

Improving the Environment

- We help to improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife
- We take care to protect and improve the environment in everything we do, leading by example

Building Successful Economies in our Regions

- We are proud to support our communities by giving time and resources to their important causes
- We work in partnership with companies and organisations to achieve the goals that are most important to our customers

Our stakeholders

We provide essential services to our customers and, as a licensed water and wastewater undertaker, we operate within a strict regulatory environment.

It is very important to us that we understand the needs of our many stakeholders to ensure that we deliver effectively across all of our business Outcomes. We engage proactively and consistently with all our stakeholders to understand what matters to them, and take account of their needs in seeking to deliver world-class customer service.

Customer voice

Customers

Understanding our customers' priorities and preferences, and how they experience our services, is vital to delivering world class services today and preparing for the future.

How we engage

- Proactive project briefings
- Sharing material for review
- Responding to consultations
- Quarterly liaison meetings
- Attendance at regional public meetings
- Bespoke engagement sessions
- Industry working groups and best practice forums
- Customer Service Network

Key issues discussed

- Drainage and Wastewater Management Plan
- Water Resource Management Plan
- Our promise to you
- Water environment improvements
- Water use behaviours
- Digitalisation
- Overall service versus expectations
- Campaigns feedback
- Our Purpose

Consumer Council for Water (CCW)

CCW is the statutory consumer body for our sector, representing customers' interests on a national and regional basis. Our engagement helps us to understand how we can continue to develop world class customer service and deliver against increasing customer expectations.

How we engage

- Responding to consultations
- Sharing material for review
- Quarterly liaison meetings
- Attendance at regional public meetings
- Bespoke engagement sessions
- Industry working groups and best practice forums
- Customer Service Network

Key issues discussed

- Innovation Festival outcomes
- Complaints management and best practice
- Water Matters research
- Tariffs, including social tariffs
- New complaints definition and roll out
- Tone of Voice and customer engagement
- Future service provision
- Improving customer centricity in complaints management

Water Forum

The Water Forum brings together a range of experts from various stakeholders. It plays a critical role in challenging us on how we listen to and act on the customer voice, as well as our performance across a range of focus areas.

How we engage

- Formal meetings and sub-groups
- Meetings with senior managers, Executive Leadership Team, and Board members
- Consultation processes

Key issues discussed

- Company performance
- Reviewing ambitious goals
- Drinking water quality improvements
- Customer engagement activity and performance
- Supporting customers through COVID-19
- Our Purpose

Government and regulatory context

Ofwat
As our economic regulator, Ofwat plays a key role in setting our price controls and performance commitments and monitors compliance with our regulatory duties.

How we engage
- Responding to consultations
- CEO level one-to-ones
- Peer to peer contact and meetings
- Proactive briefings
- Annual Performance Report (APR)

Key issues discussed
- Primary activity in 2020/21 has been the CMA review of Ofwat's Final Determination of our PR19 business plan
- Engagement with Ofwat's innovation competition
- COVID-19 response
- Water poverty
- Environmental performance

Environment Agency
The EA regulates environmental protection and we liaise on our environmental performance, discharge compliance, pollution and sewer flooding. We are committed to delivering excellent environmental outcomes and work closely with the EA to ensure we consistently achieve high standards.

How we engage
- Responding to consultations
- Annual and monthly performance reviews
- Management reviews
- National strategy and practitioner networks
- Industry task and finish groups
- Joint working group on pollution incidents and monthly pollution challenge group meetings
- Regional and local partnerships and groups, including North East Water Leaders Group, Regional Flood and Coastal Committee, Northumbria Integrated Drainage Partnership (NIDP) and Catchment Partnerships

Key issues discussed
- Compliance and performance, including pollution and bio-resources
- Event duration monitoring of Storm Overflows
- Water Industry National Environment Programme delivery
- Drainage and Wastewater Management Plan
- Howdon Sewage Treatment Works expansion

Drinking Water Inspectorate
The DWI monitors drinking water quality. Our commitment to providing clean, clear and great tasting water requires us to understand and meet the DWI's expectations for best practice. In the last year we entered into a Transformational Design with DWI in order to identify our main risk areas to water quality performance and create a collaborative Transformation Plan.

How we engage
- Responding to consultations
- Quarterly operational liaison meetings
- Transformational Design
- Senior leadership strategy meetings
- Chief Inspector's report launch meetings
- Consultation and negotiation via Water UK groups at board, strategy and policy level
- Regulatory commitments reviews
- Industry task and finish groups
- Onsite collaborative investigations and audits

Key issues discussed
- Company compliance assessments
- Dissemination of company incidents and agreed learning points
- Technical audit feedback
- Progress with agreed programmes of work
- Internal water quality communication strategy
- Collaboration opportunities
- National legislation changes
- Research outputs

Government and policy makers
Politicians, civil servants and policy makers have a significant influence on the conditions within which we operate, as well as a clear interest in understanding how we serve our customers and communities.

How we engage
- Briefings
- Site visits
- Face to face meetings
- Attendance at key forums
- Speeches and events
- Response to consultations

Key issues discussed
- Environmental performance and net zero commitment
- Environment Bill, including water efficiency measures
- Storm overflows and river water quality
- Eradicating water poverty
- Innovation activity
- Key investments
- Water resources
- Our Purpose

Our people and partners

Colleagues	How we engage	Key issues discussed
Our colleagues deliver the activities and services that enable us to achieve our ambitious goals. Our success is dependent upon their engagement, collaboration and innovation so understanding their needs and investing in them is essential. We engage both through our Employee Relations Framework and via a range of communication channels.	• Weekly 'Heidi Live' question and answer broadcast • Face-to-face Teamtalk events with senior managers • Internal communication channels – intranet, weekly newsletter, Yammer • Company-wide employee surveys • Internal networks and forums • Negotiation and Consultation Group, including trade unions	• COVID-19 response and future planning • Company performance • Defining our Company Purpose and Values • Health, safety and wellbeing campaigns • Diversity and inclusion strategy • Innovation projects and ideas • Survey feedback and resulting focus areas • Pay and conditions

Supply chain partners	How we engage	Key issues discussed
Our supply chain is vital in enabling us to deliver our services, and also plays a significant part in the economic impact we deliver in our regions, through our goal of spending 60p in every £1 with suppliers in our operating areas.	• Joint Framework Governance Groups • Safety, Health and Environment Forum • Integrated programme delivery teams • Joint conferences and workshops • Joint recruitment and development of employees • Leading and participating in industry bodies • Partner participation in our Innovation Festivals	• Innovation and best practice solutions • Sustainable operations including environmental challenges • Stakeholder engagement and customer service improvement • Capex programme delivery • Leaving a positive lasting legacy from our investment projects • Support in identifying opportunities and effective tendering

Civil society

Stakeholder	How we engage	Key issues discussed
Local authorities Local authorities are important partners in delivering services within their areas, as well as having a deep understanding of the communities within which we operate.	• Regular meetings with senior officials and lead councillors • Technical input and support on planning matters • Participation in consultations and steering groups relating to environment or economic development issues	• COVID-19 response • Asset investment schemes • Environmental performance • Regional plans and economic development • Eradicating water poverty • Water resources • Essex Climate Action Commission
Charities & non-governmental organisations (NGOs) We are committed to positive outcomes for our communities and the environment, and to working with organisations that share this passion and have deep knowledge and expertise enables us to deliver more effectively.	• Sponsorship and donations • Just an Hour volunteering programme • Policy input • Governance support • Meetings and forums • Partnership schemes and collaboration	• Environmental activities and investments • Water for health campaigns • Eradicating water poverty • Education initiatives • Regional policy support • Our Purpose
Media and opinion formers Media and other influential voices in our regions and industry help us to communicate important messages about our services and understand the impact they have on our audiences.	• News releases • Briefings • Events	• Critical incidents • COVID-19 response • Key campaigns including Bin The Wipe • Environmental initiatives • Water saving / usage advice • Water safety advice • Customer service support

Investors

Stakeholder	How we engage	Key issues discussed
Investors We are conscious of our duty to act in the best interests of our shareholders and we seek to achieve a fair balance between them and our customers and other stakeholders, including debt investors. Our investors ensure we have access to the funding we need to deliver services and invest for the future and provide important feedback and insight to inform our business practices.	• Shareholder directors • Periodic reporting • Credit investors portal • Credit agency meetings and publications • Engagement with banks	• Financial results • Regulatory and operational performance • Funding, hedging and liquidity • Regulatory environment • Capital programme update • Our Purpose

Section 172 statement

The Directors of the Company have a duty to promote the success of the Company for the benefit of its members as a whole, as set out in Section 172 of the Companies Act 2006.

In doing so, the Directors must have regard to the needs of, and impact on, our many stakeholders and other matters described in the section. This Section 172(1) Statement has been prepared in accordance with the Companies (Miscellaneous Reporting) Regulations 2018 to describe how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act when performing this duty.

How the Board has operated

We describe how the Board operates in the best interests of the Company and its stakeholders in our Governance Report on **pages 62 to 106**. This explains how the Board:

- has established the purpose, strategy and values to reflect the needs of all of our stakeholders;
- takes full responsibility for all aspects of the business over the long-term;
- demonstrates leadership and an approach to transparency and governance which engenders trust and ensures accountability for its actions; and
- has a range of skills and experience, including strong independent membership, enabling it to make decisions that address diverse customer and stakeholder needs.

Purpose

The Board has overseen and endorsed a review of the Purpose Statement (see **page 12**) this year, involving extensive engagement with employees and customers, in partnership with BITC. This has enabled us to redefine the Purpose to clearly communicate why our Company exists and to generate a deeper understanding and shared ownership among our people and stakeholders.

Long-term planning

The nature of our business requires a long-term view to be taken and this is enshrined in the updated Purpose Statement.

This long-term perspective underpinned the Board's strategy for the PR19 Business Plan, which set out ambitious goals in respect of achieving net zero carbon and delivering reliable and resilient services for future generations. This was also a key driver of the decision to seek a redetermination by the CMA.

The Board was actively involved throughout the CMA process and sought to ensure that the views of our customers were represented, particularly in relation to long-term water supply resilience in Essex and sewer flooding risk in the NW region, and that the need for long-term operational, environmental and financial sustainability was considered.
The Board closely monitors the financial position of the business through a rolling five year plan, whilst also considering longer-term financial resilience over an extended time horizon as explained in the viability statement on **page 104**.

Dividends

The Board considers whether or not to pay dividends each year after taking account of the considerations set out in its dividend policy. During 2020/21 the Board decided not to approve or pay any dividends. This decision took particular account of the uncertainty surrounding the CMA appeal process and other items that were expected to have some impact on the Company's financial position, on which the Board prudently sought clarity before making any final decision. Note 8 to the Financial Statements describes the dividend policy and how it has been applied in the year.

Strategic risks

The Board, through its Risk & Compliance Sub-committee (R&CSC), monitors the principal risks and uncertainties facing the business including longer-term strategic risks. A detailed review of the Strategic Risk Register is carried out each year, most recently in December 2020, which considers horizon scanning reports from external sources. The principal risks and uncertanties, and how they are mitigated, are reported on **pages 55 to 60**.

The emerging risk in relation to plastics pollution and the problem of micro plastics in the water environment was a particular point of discussion. The R&CSC identified that this issue has an increasing profile with the DWI and also noted that research was being carried out on potential solutions to mitigate the issue.

Governance

The Board is committed to maintaining high standards of corporate governance and business conduct.

We adhere to Ofwat's Board leadership, transparency and governance principles, subject to minor exceptions as explained on **pages 72 to 79**. We also operate in accordance with the Wates Corporate Governance Principles for Large Private Companies, and explain our compliance with the principles on **page 85**.

The Board approved a new Tax Integrity Policy setting out its ethical approach to complying with our statutory tax obligations and preventing any facilitation of tax evasion by staff or our suppliers.

Independent Membership

As highlighted in the Chairman's Statement on **page 62**,the four INEDs who served during the year are standing down after many years of valuable service, which has provided an opportunity to refresh the membership of the Board. Through the work of its Nomination Committee, the Board has ensured that the newly appointed INEDs bring a wide range of relevant expertise and experience.

Whilst the Board will continue to work as an integrated whole, the new INEDs will each have areas of special focus, drawing on their professional expertise and backgrounds and working with particular stakeholder groups. Peter Vicary-Smith will pay particular attention to customer-related matters, Jacqueline McGlade brings a strong environmental perspective and Alan Bryce will work closely with our employees. In addition, Bridget Rosewell and Alan Bryce will have particular regard to our work in the north east, and Richard Sexton and Jacqueline McGlade to our work in Essex and Suffolk.

Stakeholder engagement

The Company has a wide range of stakeholders and we describe how we engage proactively with these groups in Our Stakeholder section on **pages 14 to 17**. Much of the stakeholder engagement takes place at an operational level, with the Board receiving regular reports in respect of customer service, operational performance, health and safety and key risks, such as data security of customer and water quality.

The Board also takes steps to engage directly with stakeholders, albeit this has been more difficult over the past year due to COVID-19 restrictions. For example, with his environmental focus, Dr S Lyster worked with a range of stakeholders in Essex on how to achieve net zero carbon and engaged with farmers and landowners in our catchments trying to minimise pollutants getting into catchment rivers which supply our water resources.

The Board reviews Company performance across a wide range of subjects at each meeting through the balanced scorecard (see **pages 22 to 23**), which tracks performance across our corporate themes of Customer, Environment, Competitiveness, People and Communities, and also through management reports on health and safety, finance, customer, regulation and operational performance. This provides a balanced view of performance enabling informed decisions to be made which fairly reflect the broad range of stakeholder interests.

Customers

Understanding customer needs is critical to delivering unrivalled customer service and this underpins the Board's decision making. The Board paid particular attention to how the Company engaged with customers through the COVID-19 pandemic and maintained customer service while large parts of the business worked from home. This included the increased use of digital engagement and social media channels, building on the new website launched the previous year.

As part of understanding customer needs, the Board supports direct customer engagement across a wide range of subjects, as well as engaging with CCWater and the Water Forum. During the year, this included gaining customers' views on the development of regional water resource management plans and drainage and wastewater management plans, which will inform long-term planning for our water and wastewater businesses.

The Board and its R&CSC continued to take a keen interest in cash collection trends form customers and, in particular, how the Company is working with CCWater and other stakeholders to extend the use of social tariffs for customers with affordability issues, which have been exacerbated by the financial impacts of COVID-19.

See **pages 27 to 33** for more information on Customer matters.

Environment

The Board is conscious of the environmental responsibilities of the business and the importance of maintaining the highest standards of compliance. The Board, through its R&CSC, regularly requests 'deep dives' into areas of particular importance to its stakeholder enabling it to understand the risks and actions and provide direction.

During the year, the R&CSC carried out a deep dive review into water quality. This included understanding the DWI's Transformation Plan and how the Company can work collaboratively with the DWI to identify water quality improvements and enhancement projects over the longer-term.

The R&CSC discussed how improving the quality of water catchment areas could help reduce the need for downstream investment and encouraged the continuation of work with the farming community to reduce the use of metaldehyde and other pesticides.

The R&CSC also carried out a deep dive into the area of river pollution, noting the Company's strong performance on pollution incidents and the anticipated 4* performance under the EA's EPA. There was a particular focus on storm overflows, acknowledging that this is an area of increasing public interest. The R&CSC supported the Company working with Defra, regulators and Water UK to reduce the frequency and volumes of sewage discharge. It also encouraged the Company to continue taking a catchment management approach to support improvements.

The Board approved the installation of solar panels at a number of operational sites, in line with its Energy Strategy and commitment to achieving net zero emissions by 2027.

See **pages 34 to 37** for more information on Environment matters.

Employees

The health and safety of employees is the first matter considered by the Board at each meeting, including considering any lost time accidents or high risk incidents and the learning points taken from them as well as performance against leading and lagging indicators. Particular attention was given to the steps taken to keep our employees safe during the COVID-19 pandemic as they continued to provide essential services. The Board also discussed the importance of management maintaining engagement with employees working remotely through COVID-19, via briefings, pulse surveys and weekly CEO webinars.

The Company carries out an annual employee engagement survey and the Board discussed detailed feedback on the survey results. This is a key tool for the Board to assess the alignment of values and behaviours across the Company to the vision and purpose. Engagement will be reassessed later in the year to measure the improvement achieved and identify any further steps required.

The Board received regular updates on the progress of the triennial actuarial valuation of the defined benefit pension scheme throughout the year, and how the Company engaged with the scheme Trustee on behalf of employee members. The Board approved the final valuation and schedule of contributions. The Board also approved the investigation of an asset backed funding arrangement to improve the sustainability of the scheme's deficit recovery plan.

See **pages 41 to 45** for more information on Employee matters.

Community

The COVID-19 pandemic has reinforced the importance of our links with the communities we serve, and the Company has worked together with the NHS to support the COVID response, notably through supporting the setting up of the Nightingale Hospital in Sunderland and making available the Company's head office for use as a mass vaccination centre.

The work on reviewing the Purpose Statement was supported by BITC, a partner we have worked with over a number of years. The Board considers sustainability matters and the impacts on the local community when approving capital projects and contracts, and also when it discusses the progress of major capital investment projects.

See **pages 46 to 48** for more information on Community matters.

Suppliers

Our supply chain is vital in enabling us to deliver our services, and also makes a significant contribution to the economies of the regions we serve. The Board encourages the Company to work collaboratively and ethically with suppliers. This can be seen in our work with partners on innovation, including applications to Ofwat's Innovation Fund. The Board approves large contract awards, considering these from an ethical and sustainability perspective as well as a commercial standpoint. The Board also discussed and reaffirmed its commitment to its Slavery and Human Trafficking statement, which aims to ensure transparency on these matters in our supply chain.

In respect of the delivery of the AMP7 capital investment programme, the Board reviewed and approved the framework arrangements for his activity, providing long-term visibility of future work to supply chain partners.

See **pages 38 to 40** for more information on Supplier matters.

S172 Duty

The Directors of NWL consider, both individually and together, that they have acted to promote the long-term success of the Company for the benefit of its members as a whole during the year ended 31 March 2021, in accordance with their duties under S172 of the Companies Act.

Performance Review

In order to measure delivery of the Company Business Plan and goals, we use a balanced scorecard of Key Performance Indicators (KPIs) covering the full range of our strategic themes.

We update our Balanced Scorecard for 2020/21 to take account of the Measures of Success (MoS) and PCs set in our PR19 FD. Though we track a wide number of metrics in our business, we have reduced the number of key indicators to focus on the matters which are most important to our customers. We report against our full range of Performance Commitments in our APR.

The top section of the Performance table on page 23 (with a blue header block) shows our performance against the Outcomes, MoS and PCs we agreed in the PR19 price review. Please note that the leakage targets were revised to reflect changes in the CMA FD.

We are pleased that we have achieved two thirds of our stretching targets in the period and shown year on year improvement on many of our important customer and environmental targets, including supply interruptions, repeat sewer flooding and greenhouse gas emissions. However, we aim to achieve all of our PCs and we are always disappointed when our performance doesn't meet our targets, especially when this results in a performance penalty. We have colour coded our customer and environmental performance as follows. We show (●) where we have met our performance against our promise, (●) where we have not met our performance target but still generated a reward or not incurred a penalty, and (●) where we have not met our performance and have incurred a penalty.

The bottom section (with a light blue header block) reports our performance against our internal targets under our Competitiveness, People and Communities Outcomes. These are colour coded on a simple pass (●) or fail (●) basis.

Actual performance against the KPI targets

Scorecard Measure	Units	2019/20 Performance	2020/21 Target	2020/21 Performance	2020/21 Achieved	2021/22 Target
Customer						
C-MeX: Customer experience	position	n/a	Top 2	2nd		Top 2
C-MeX: Customer service	position	n/a	Top 2	3rd		Top 2
D-MeX: Developer services measure of experience	position	n/a	Top 2	7th		Top 2
Interruptions to supply > 3 hours	mm:ss	06:08	<=05:24	04:04		<=05:02
Repeat sewer flooding incidents	number	75	<=46	25		<=28
Internal sewer flooding incidents	number	139	<=285	244		<=212
Compliance Risk Index (CRI)	score	n/a	<=2	7.11		<=3
Environment						
Leakage (NW)	Ml/d	134.8	<=131.7	140.0		<=126.9
Leakage (ESW)	Ml/d	63.2	<=64.4	66.0		<=60.2
Discharge permit compliance	%	98.84	>=99	99.51		100
Pollution events (Category 1&2)	number	1	<=1	1		<=1
Greenhouse gas emissions	ktCO2e	68.8 (restated)	<=57.2	55.9		<=50.21

Scorecard Measure	Units	2019/20 Performance	2020/21 Target	2020/21 Performance	2020/21 Achieved	2021/22 Target
Competitiveness						
Gearing: net debt to Regulatory Capital Value (RCV)	%	67.8	<=77.5	69.9		<=77.5
Regulated gearing: net debt to RCV	%	67.2	<=70	69.5		<=70
Interest cover	times	4.0	>=2.4	3.0		>=2.4
People						
Employee engagement – trust index	%	62	>=65	70		72
Lost time reportable accidents	number	7	<=3	9		3
Communities						
Trust - Ethisphere	awarded / not awarded	awarded	award	awarded		award

COVID-19

The COVID-19 pandemic and associated lockdowns and restrictions created unprecedented challenges for the whole world. As a provider of essential services, we needed to adapt rapidly to make sure we continued to deliver clean water and take wastewater away safely. Our pledge was to support our people, customers, and communities throughout the difficult circumstances of the past year.

Our key workers showed great dedication to keep the water flowing for our customers. This was particularly important for NHS facilities, so we provided extra support to effectively deliver network connections to new facilities, including the Nightingale Hospital set up in the North East, and carried out more checks to ensure resilient supplies to existing NHS sites. We also provided 20,000 litres of emergency water to keep NHS workers hydrated.

It was critical we did this in a way that kept our employees safe. We carried out a series of site assessments, issued new bespoke guidance, and created a new app to help our employees make effective judgments on how to work in a COVID-secure way. In January 2021, we became the first water company in England and Wales to launch a COVID-19 rapid testing programme with employees. Working closely with NHS Test and Trace, Defra, and Water UK, we piloted a scheme for asymptomatic testing to be carried out on a voluntary basis for around 600 employees, and this has now been made available to the whole workforce. Up to the end of March 2021 5,596 tests were carried out.

More than 1,500 of our employees moved to home working and were shown how to carry out assessments to make sure they were set up with the appropriate equipment to do so safely and effectively. In addition, we stepped up our support for colleagues' wellbeing, which contributed to us being named a Centre of Excellence for Wellbeing 2020/21 by the Great Place to Work Institute, and awarded Ambassador Status for wellbeing as part of the 2020 Better Health at Work Award assessment process.

Many of our customers faced additional challenges due to COVID and in response to this we initiated a new support approach including payment breaks for people facing financial difficulty. To the end of March 2021, 8,015 customers benefited from a payment break. In addition, 9,779 extra customers have received additional support through our social tariff and WaterSure schemes.

We created content on our websites to give our customers a one-stop-shop for everything they needed to know about COVID-19 and detailing how we would continue to operate safely across the communities we serve. This new hub was signposted from all our other operational communication channels, as well as in our marketing and corporate communications. Robust processes were put in place to keep information updated and relevant, so that it added value and helped customers to help themselves.

Our contribution to tackling the pandemic included supporting Newcastle University with research to test wastewater for traces of COVID-19 to help identify future disease hotspots. We also provided our Boldon House office in Pity Me to be used as the Arnison Vaccination Centre for Durham. In addition, more than 50 of our colleagues volunteered to help clinical staff run this centre, along with other vaccination sites in the North East.

Caring for our communities is something we are committed to, and we took several opportunities to do so during the pandemic. We provided IT equipment and connectivity for students who were home schooling during lockdown. On the back of individual donations for schools in our operating area, we led on the establishment of the wider Laptops for Kids campaign run in partnership with Northern Powerhouse Partnership and The Evening Chronicle newspaper in our Northern operating area. We also committed that no colleagues would be furloughed if they were unable to carry out their normal job and identified opportunities for both secondments elsewhere in the business and volunteering in the community.

Case study

COVID-19 60 second app

At the start of 2020, and as the impact of COVID-19 was being realised, our Business Resilience Group and Executive Leadership Team set up a COVID-19 Response Team. Their main focus was to look at the impact the pandemic would have on our employees, customers and on the Company. The group meet weekly and review guidance and instructions given by the UK government and government departments, such as Defra, and the impact and review the company plans, guidelines and activity.

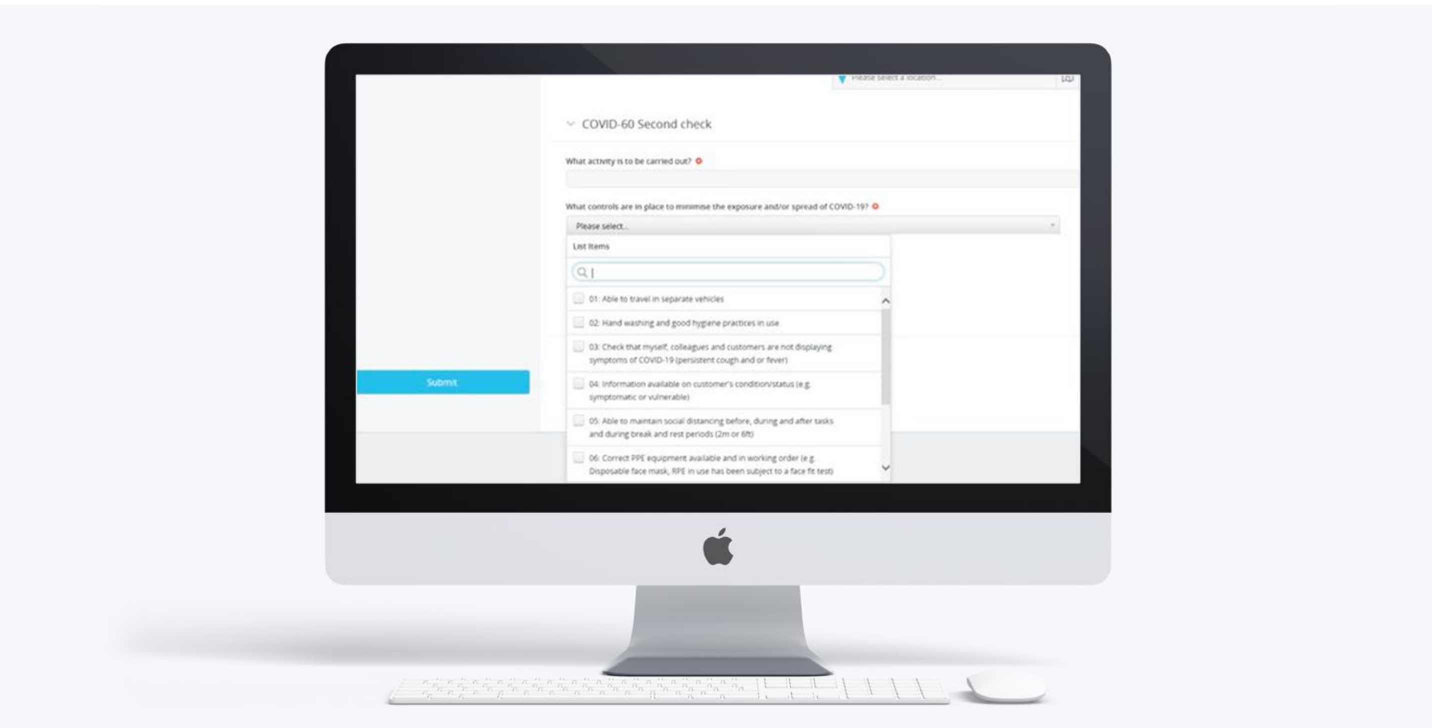
Over the last few years we have been using the 60 Second Check tool, a personal safety tool that our teams use before starting any job. The purpose of the check is to make sure employees are safe before carrying out a task. These are voluntary because we want people to do them because they value them - not because they are told to!

We have been using a risk management system, Coruson, that allows tools such as the 60 Second Check and forms to be created in-house and deployed as an app on company mobile phone devices. In March 2020 when the coronavirus pandemic was starting to take hold in the UK our Safety Health and Environment Team acted quickly to develop a specific COVID-19 60 Second Check app for our employees to use.

The specific COVID-19 60 Second Check Tool was tailored around the Company policies (in line with UK government guidelines) in relation to coronavirus safe working practices and followed a simple hierarchy of control that guided employees on what to do in their daily activities to keep them, their colleagues and our customers safe.

The COVID-19 60 Second Check Tool was designed and built in-house within three days and deployed onto all company mobile phones through the company Apps@Work system which allows company apps to be installed. The app allows us to monitor usage by user, department and directorate and look at the reasons why jobs were stopped allowing us to review our COVID-19 company guidelines.

After the initial launch the tool was adopted enthusiastically by our field teams, with just under 66,000 checks carried out in just 10 months, which shows the benefit the teams see in completing the checks, and that's on top of the 88,500 normal 60 Second Checks completed.



Case study

Supporting our customers through the COVID-19 pandemic

Many people across the country experienced unexpected changes in their circumstances due to the coronavirus pandemic. From the start of the first lockdown, and throughout the year, we provided our customers with guidance on how we can help make sure their water bills are more affordable. Some customers were facing worrying and uncertain times, and we knew that Government changes to the furlough scheme may bring further change and additional worry.

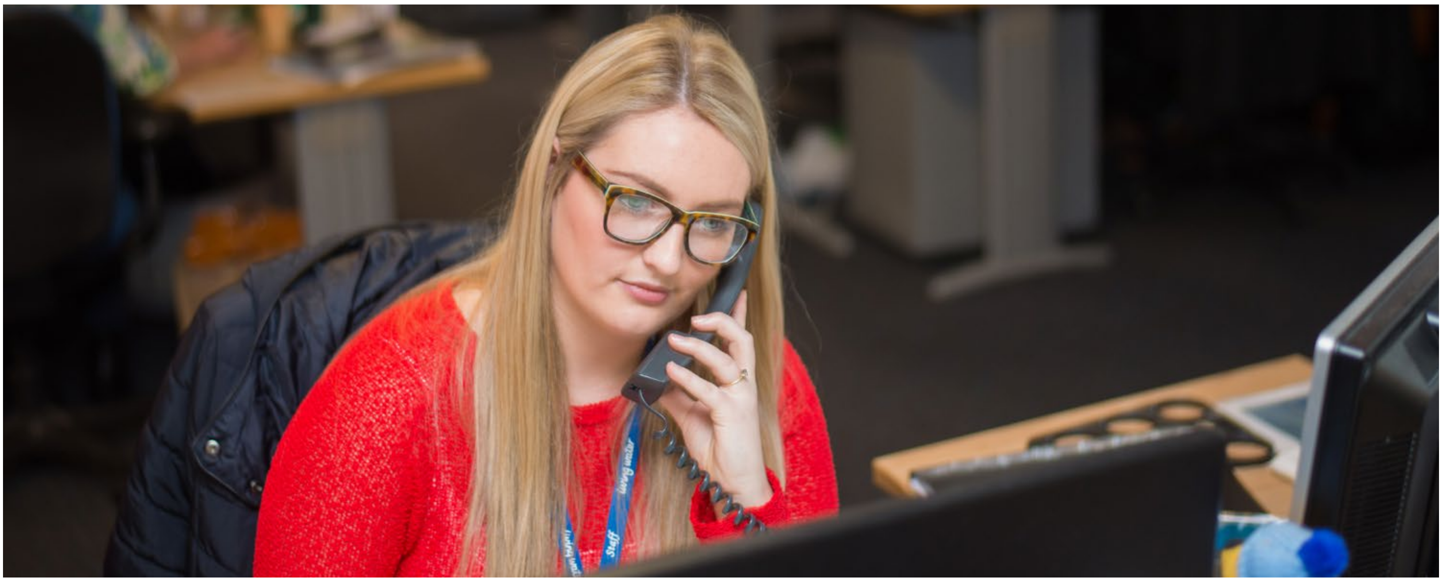
Through our Water Without the Worry campaign, we offered a wide range of free support, especially for those who were unexpectedly affected by the pandemic and people who were already having financial difficulties.

Here are some ways we have supported, and continue to support, our customers:

- Checking they're on the cheapest tariff for their current circumstances. We can offer discounts of up to 50%. These tariffs are perfect if a customer's total household income is less than £16,105, a member of the household receives Pension Credit, or their household income doesn't cover essential bills.
- Supporting switching to a water meter when this can save customers money. Our instant, online calculator shows whether a water meter would reduce charges. We install meters for free and allow customers to track their water usage with an online account.
- If anyone has been made redundant or had a sudden change to their income and can't afford to make payments, we can offer payment breaks. Since the first lockdown, we've already helped more than 8,000 customers this way.
- If a customer's income has reduced and they can't afford their normal payment arrangements, we can offer a variety of flexible payment arrangements that are suitable for the individual.
- Working with independent debt charity StepChange, who provide free, expert debt advice and solutions for anyone looking to reduce arrears and re-schedule payments to ease debt problems.

Lisa Connell, Customer Service Manager, said:
"We have a fantastic team ready to help our customers and give them the support they need. We've helped many customers reduce their charges and provided many affordable payment plans.

"The worry of unpaid bills and getting into debt can put a strain on people's health. It's important for people to know that they don't have to face their problems alone and that we're here to help - not just during the coronavirus pandemic, but at any time. All they need to do is get in touch to talk about what we can do to support them."



Customer

Unrivalled Customer Experience

Our goal is to deliver world class customer service. We know our customers really value this and it is something we strive for every day. To make sure we're best placed to drive forward our efforts to provide all our customers with unrivalled experiences, we've focused on how we can make things better and simpler for our customers, driving a right first time, fast time, every time approach across all our services. This has seen us reengineer some of our organisation and reshape some roles to make sure our employees are able to use customer insights, learn and take opportunities to deliver outstanding service consistently.

During the COVID-19 pandemic, this focus on customer service has been more important than ever. We've tried hard to make a difference and make things easier for our customers during these difficult times. We created a first-class digital hub, giving our customers a one-stop-shop for everything they needed to know about COVID-19 and how we would continue to operate safely across the communities we serve. We provided payment breaks to help customers affected by furlough, redundancy or illness, and we used our data, insight and experience to build new customer journeys that helped customers to engage with us in new and easy ways.

C-MeX - Customer Measure of Experience

C-MeX is the new measure of customer experience across the water industry. It replaces the previous Service Incentive Mechanism measure, providing a more holistic review of performance. This is because it looks not only at operational, transactional contacts, but also takes account of experiential views and perceptions. These are the broader, reputational and brand awareness elements of customer experience, when people may not have had an actual transaction with the company in recent times, but can recall and recognise its brand. By looking through both transactional and experiential lenses, this considers the whole service offering, across operational effectiveness and resolution as well as trust, price, quality and overall brand.

Our customers tell us we provide excellent customer service and resolve issues quickly

Our target is to be in the top two companies for C-MeX. Throughout 2020/21 we've consistently been in the top three companies for both headline measures, and we finished the year ranked second for customer experience and third for customer satisfaction. We're delighted to have been rated highly by our customers, but there's always more we can do.

We're determined to keep making experiences even better for our customers, using their feedback and insights to continuously improve our services. We have been working with KPMG Nunwood, using their Six Pillars of experience excellence model to improve further (see case study on **page 28**).

D-MeX – Developer Measure of Experience

D-MeX is a new measure to assess the service that we provide to developer services customers, including property developers, self-lay providers and those with new appointments and variations. This considers a number of quantitative metrics as well as qualitative feedback from customers. Our target is to be in the top two companies for D-MeX.

The COVID-19 pandemic caused particular challenges in this area. During the first lockdown we carried out a safety assessment of our activities and took the decision to pause site-based developer services activity, including new connections. This created a backlog of activity which adversely affected our performance during the first half of the year. However, as we adapted to the restrictions, our performance improved in the second half of the year, and we expect to finish in seventh position in the industry.

We continue to review our performance, with a focus on both achieving good levels of service and enhancing our developer customers' experience. In the next year we will introduce additional channels for customers, including a new customer portal, and work with our field teams to sustainably improve our performance.

Case study

Customer experience at the heart of everything we do

Ofwat's new customer experience benchmark, C-MeX, was launched in April 2020 to galvanise water companies into action when it came to customer experience – with financial incentives or penalties to match.

As a company who believes every customer should receive an unrivalled customer experience, we challenged ourselves to go beyond industry benchmarking to ensure best-in-class customer experiences.

We worked with KPMG Nunwood, using their Six Pillars of experience excellence - an evidence-based method that prioritises actionable results. The six pillars are Personalisation, Integrity, Expectations, Resolution, Time and Effort, and Empathy.

This was no cosmetic, tick-box exercise, but a holistic, root and branch approach to strengthening customer-centricity, finding new ways of working and creating a lasting roadmap for change.

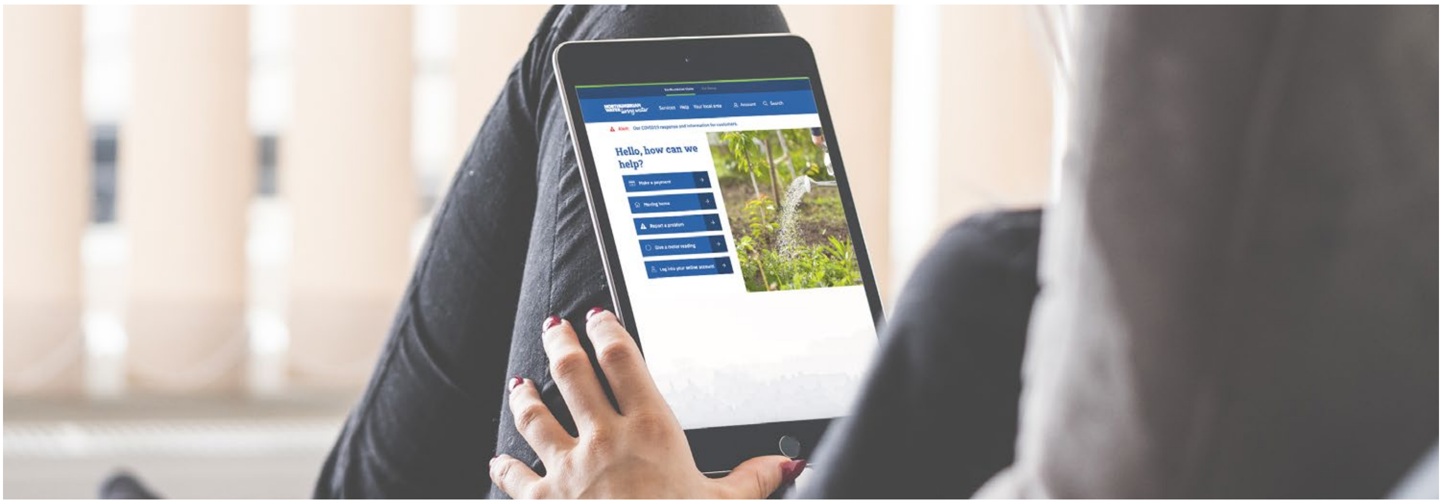
We worked to:

- create maps of the current service states across three priority scenarios - 'Pay your bill,' 'Manage your water,' and 'Priority customers' – flagging gain and pain points and areas of value and waste;
- identify end customer personas, based on qualitative and quantitative insights and extensive customer interviews; and
- outline future service requirements, drawing on best practice, employee engagement and customer and business insights.

Taking time to engage with customers in end-to-end reviews, to ensure improvements work for them, has been an important element of the process. Digital innovation has also been a cornerstone of NWL's customer experience transformation. We used digital twins, virtual copies of our customer processes and systems, to simulate, test, and optimise customer data to determine customer needs and expectations. This included the requirements of vulnerable customers. Our digital channels used these principles to radically enhance and transform our customer service offering.

By analysing specific customer touch points, we could understand the journeys customers must take to get the best result. By understanding which touch points impacted on customers and their experience, we could map out new processes and identify unnecessary ones and those that didn't give customers the best experience.

We've now embedded the Six Pillars into our performance management training across the entire Company. Training sessions are also part of new starter inductions, focusing on the soft skills and technical know-how required for every customer journey. Our next steps are to adopt the KPMG Nunwood Customer Experience Cloud, which has access to machine learning. This will facilitate a holistic, agile approach to transforming customer insights into better decision making and greater efficiency.



Customer engagement

We know that listening to our customers and having a deep understanding of what they expect from us now and in the future is important. We've long been committed to ensuring our customers are at the heart of what we do and giving them the opportunity to have a strong voice that is heard and can shape the services we provide, allows us to do this consistently. Our goal is to give every single customer the opportunity to have a strong voice and engage with us, with at least 2 million customers participating by 2025.

We've worked hard over the years to shape our offerings to reflect customers' needs and wants, incorporating this feedback into our business plans so we're always representing the voice of our customers. This is especially true when we're setting bold, new objectives like the ones included in our Business Plan for 2020-25.

When we received Ofwat's Final Determination, the things our customers told us were important to them hadn't been heard as loudly as we'd have liked and this was one of the key reasons we decided to refer our case to the CMA for further consideration.

As the country has faced the impacts of the global pandemic, it has never been more important for us to remain true to our customer focused values. Restrictions to manage the spread of COVID-19 have impacted how, when, where and why we engage with our customers. During this time we've taken opportunities to engage with our customers digitally, using technologies and platforms like WhatsApp, Zoom, Teams and Facebook to talk with customers, and share ideas and thinking. We hope that there will always be a place for in-person rather than virtual customer engagement, however, moving quickly to ensure our customers could reach us in new and emerging ways was key to keeping dialogues going.

Our customers say they feel informed about the services we provide and the importance of water

Our customers say our services are good value for money and we work hard to keep water and wastewater services affordable for all

Affordable and inclusive services

We have an ambitious target to eradicate water poverty in our operational areas by 2030 and have set annual targets to reduce water poverty each year towards our long-term goal.

Our PR19 Business Plan committed a substantial reduction in customer bills with effect from April 2020 and the recent CMA decision will result in similar average prices over the 2020-25 period, albeit with lower prices in the first two years and higher prices in the later three years.

The price reduction helped to reduce the number of our customers in water poverty in 2020/21, however, we know that many of our customers will have seen their income dramatically impacted during the year and that as a result underlying water poverty will have worsened. Our focus on providing support to those who need it is more important than ever.

We are working hard to increase the numbers of customers benefiting from our financial support schemes, like our SupportPlus social tariff, and saw increases in usage of between 15% and 30% across the different options we offer. We are now sharing data with the Department for Work and Pensions to help us to identify customers eligible for our discount scheme for those receiving Pension Credit and for WaterSure. We are also working closely with credit reference agencies to help develop a more adaptive measure of water poverty in future, which will enable us to better target customers requiring support.

As part of our actions to mitigate the potential impact of COVID-19, we carried out additional customer research to extend the funding of our SupportPlus social tariff, and we were successful in gaining customer support to extend the tariff by increasing the cross-subsidy in 2021/22, which will allow an additional 22,000 customers to access our financial support schemes.

We also continue to carry out independent value for money surveys. We have seen an increase in the average satisfaction of customers that the services we provide represent good value for money to 8.3 out of 10, the highest score we've received in the last six years. This is particularly pleasing, given the affordability challenges many of our customers faced during the pandemic.

We're proud to have achieved British Standard 19477: Inclusive Service Verification this year. The Standard assesses whether inclusive services are fully accessible to all customers and that companies have the right business processes in place. We aim to provide a fair, flexible service which can be used by all customers equally, regardless of their health, age or personal circumstances. We aim to maintain this Standard and to use the regular assessments to identify areas to improve further.

We always provide a reliable supply of water

Reliable supply of water

Our customers expect that water will flow when they turn on the tap and that they should not be affected by shortages of water. Any interruption to the water supply can cause our customers real inconvenience, especially when it is unexpected and we cannot warn customers in advance. We have delivered amongst the lowest levels of interruptions to supply in the industry over a number of years and have improved our performance this year to 04:04 minutes against a target of 05:24. This was done by improving our focus on keeping supply interruptions as short as possible, including quicker response times when receiving a customer nil supply contact, improved event management and innovative thinking about restoring supplies through alternative methods before the repair is completed.

In addition to improving water supply we have continued our efforts to help our customers reduce their demand for water. We have an ambitious long term goal to reduce per capita consumption (PCC) to 118 litres per person per day by 2040, from three-year average of 150.6 litres per person per day. The COVID-19 pandemic caused a major change in consumption patterns with an increase in household consumption of around 9% due to large numbers of people working from home. We have been monitoring this impact and carrying out research with partners to understand the pandemic's immediate and potential longer-term impact on water use.

The COVID-19 restrictions also meant that we had to adapt our water efficiency initiatives. In place of home visits, we switched to virtual water audits by qualified plumbers via video calls, to check for tap and toilet leaks, identify suitable water-saving products and provide tips to challenge and change the household's water use behaviour. Our educational offering to schools was also reassessed and changed from workshops delivered within schools to online learning. In partnership with Hopscotch Consulting, a leading social impact agency, we created a purpose-driven education and behaviour change programme called the Ripple Effect. This uses films, interactive games and activities for eight to 11-year-olds, providing an informative but fun learning experience to encourage children to appreciate the value of water (see case study on **page 33** for more details).

Clean, clear water that tastes good

Our drinking water is clean, clear and tastes good

The water we supply must meet the stringent quality standards set by the DWI, to ensure that it is safe to drink and free of colour and particles, poor tastes and smells. The DWI introduced a new measure of drinking water quality in 2017 called the Compliance Risk Index (CRI). This uses information from the whole source to tap journey, through water treatment works, networks and customer taps, to make a more exacting assessment of water quality. Every compliance failure receives a CRI score based on the cause and significance of the failure, the location within the water supply system, and the quality of our investigation. Our ambition is to drive towards a zero score over time.

Our CRI in 2020 was 7.11 units against our target of 2 units. The biggest cause was bacteriological fails at three water treatment works. We are working closely with the DWI and have increased and accelerated investment plans as part of our transformation plan. This will include an enhanced programme of treated water storage tank inspections to mitigate some of the risks identified at these sites, alongside a root and branch review of treatment processes. The journey of water from treatment through to customer tap is also important so we have increased our service reservoir maintenance programme to maintain the integrity of these assets and minimise any water quality risks.

We're committed to achieving industry-leading levels of CRI and are delivering our long-term plans to reach this. In the last year, we have completed the replacement of treatment sites in Northumberland and Suffolk which will provide more reliable supplies and meet current and future drinking water standards. This will be supplemented in the next year with the completion of the new Horsley works supplying large proportions of Tyneside, plus the replacement of four works in Northumberland and the installation of UV treatment at two works supplying the Durham and Wearside areas.

The quality of the water we supply is of paramount importance, but our customers also care about the appearance, taste and smell of the water they receive. In recent years we've made improvements at our water treatment works and in our networks to address discolouration. We are now progressing with further programmes of work to avoid discolouration from trunk mains and to flush smaller sized pipes closer to customers.

The number of taste and odour complaints reduced in the year. We have been carefully controlling the level of chlorine in the water, striking the right balance between wholesome water and lower chlorine levels to maximise our water's acceptability. We are also investigating network operations to determine how we can provide customers with a more consistent supply from the same source, as changes to the water supply can cause concern for customers. Our ambitious goal is to promote confidence in our drinking water so that nine out of ten of our customers choose tap water over bottled water.

Sewer flooding

Our sewerage service deals with sewage and heavy rainfall effectively

Sewer flooding is one of the worst service failures our customers can experience and our goal is to eradicate sewer flooding in the home as a result of our assets and operations. This remains one of our highest business priorities and we recognised that we required a step change in our own performance to meet our targets and progress towards our goal.

In previous years we developed a sewer flooding tactical plan to identify and deliver effective near-term interventions to help reduce the risk of flooding. This was based around customer communication and education, improved operational planning, better use of data analytics and increased proactive CCTV survey programme.

Following a successful pilot, we extended our Bin The Wipe campaign initiative to create sustainable, behavioural change and stop people flushing wipes which cause blockages. We also extended the use of our porcupine equipment, which catches wipes in the network on its spikes and allows the team to identify which direction the wipes have travelled from back to specific houses. This allows us to engage directly with customers.

These initiatives have resulted in significant improvement in our sewer flooding performance. We've reduced repeat sewer flooding incidents by two thirds compared to the prior year, a result of 25 incidents against our target of 46. We've also reduced internal sewer flooding incidents by 40% to 244, compared to a target of 285. Whilst we are pleased with our progress, we acknowledge that our performance is still behind others in the sector and further work and investment is needed to continue improving this service for customers.

Reliable and resilient services

We always consider longer term perspectives in operating our business and use horizon scanning to look for future challenges. This enables us to adapt our plans today to provide a resilient and sustainable business for future generations.

In an increasingly uncertain world, we routinely review and update our strategies and plans to take contemporary understanding of critical uncertainties into account. We're updating our horizon scanning and developing a number of plausible futures that will allow us to develop long term, adaptive strategies to deal with critical uncertainties. We aim to identify shocks and stresses that could have a significant impact on delivering our services. Through this, we can develop strategies that optimise our approach to designing and managing a resilient business.

A particular area of focus is understanding the risks posed by climate change in order to develop effective adaptation plans. Over the next year we will update our climate change risk assessment and develop an adaptation report to inform long and medium term strategic planning. This will be shared with our key external stakeholders.

We are resilient and provide clean drinking water and effective sewerage services; now, and for future generations

Our PR19 Water Resources Management Plan (WRMP19) demonstrated that we have 100% security of supply in all our Water Resource Zones, across the full 40-year planning horizon. We also demonstrated resilience to a drought with a return period of 1 in 200 years in all our Water Resource Zones, with 0% of our customers at risk from severe supply restrictions.

By 2023, we will deliver our first ever Drainage and Wastewater Management Plan (DWMP) to identify how we will extend, improve and maintain a robust and resilient drainage and wastewater system in light of the pressures of climate change, population growth and growing customer expectations.
We have a number of other enhancement investments underway which will improve the resilience of our water and wastewater asset base, as well as commencing our roll out of smart water meters. We are also enhancing our cyber security to mitigate against the increasing cyber threat landscape, focusing on the areas that have the greatest impact on protecting our business.

Case study

The Ripple Effect - educating youngsters on the value of water

In February 2021, we launched a brand-new initiative for educators and parents supporting home-schooling, to educate thousands of primary school pupils about the importance of water.

Working closely with leading education agency Hopscotch Consulting, we developed The Ripple Effect, which is designed to change the way children think and feel about water. It's a free online programme helping young people become more aware of how precious water is. Through interactive games, videos and activities, it also teaches them how to use water efficiently.

The Ripple Effect was set up to be simple and effective for parents and teachers to use during the pandemic and the period of remote learning due to lockdown.

This is one of the many steps we're taking to future-proof our resources and raise awareness of our ambitious environmental goals.

Tim Wagstaff, Lead Water Efficiency Manager, said: "The Ripple Effect invites school communities to think hard about the way they use water. Children now care more about how they treat the environment - it's the 'Greta (Thunberg) Effect.

"By making small changes to the way we use water, we can protect our precious water supplies. It's really important that we properly educate the next generation so that we can create positive change for the future.

"We use water for everything - cooking, cleaning, drinking, eating - and it's important that we value it and don't take it for granted. On average, people use around 150 litres of water a day and water use has almost doubled in 60 years. As population and housing numbers are also increasing, this creates even more demand for water.

"We also hope this programme will be of assistance to all of the incredible parents and teachers who are having to adapt to these strange ways of working under the current climate."

Tiff Barwick, Deputy Managing Director at Hopscotch, added: "We're thrilled to be working with Northumbrian Water and Essex & Suffolk Water to create The Ripple Effect. Water, after all, is a precious natural resource which warrants effective, focused and impactful learning opportunities from a young age. We feel proud to be supporting the organisation's mission to change people's behaviour surrounding water use."

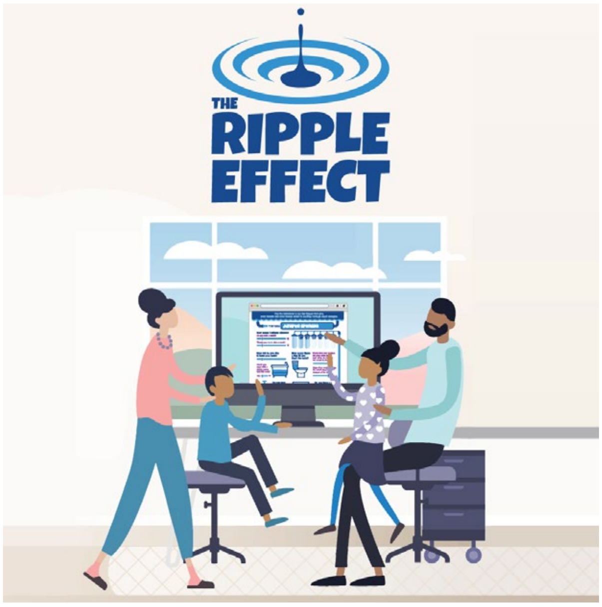
As part of the exciting new initiative, students train to become 'Water Trackers' - expert protectors of water and guardians of the water cycle.

There are two digital spaces for educators to explore with their students:

- Water Tracker Training Camp: A rich suite of activities that allow children to collect virtual badges as they complete challenges and gather important facts about water efficiency and the water cycle; and
- Water Tracker House: Packed full of games, skills tests and challenges related to water-waste scenarios.

Both journeys contain flexible, interactive resources for the classroom and remote learning. The programme is aimed at eight to 11-year-olds and gives educators the opportunity to sign their class up for free. It's also open to community groups.

For more information go to the website:
www.nwg.co.uk/ripple



Environment

The first of our environmental outcomes covers our responsibility towards good quality water at our rivers and beaches and our regulatory obligations to improve the environment. We are committed to meeting our ambitious goals to have zero pollutions as a result of our assets and operations, and to have the best rivers and bathing water beaches in the country.

We help to improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife

Environmental Performance Assessment

We are pleased to have achieved a 4-star company status in the EA's EPA for 2020, with leading environmental performance, such as in pollution management and discharge compliance. This recovers the rating we achieved in 2018, after a drop in 2019 caused by technical sampling issues.

Treatment works compliance

For 2020-25, we've adopted the treatment works discharge compliance measure used by both Ofwat and the EA in its annual EPA. This reports the total number of sites failing their permitted discharges as a percentage of the total number of registered discharges. This measure includes both water and wastewater discharges.

Although we achieved the KPI on our balanced scorecard of >99% discharge permit compliance, we were still disappointed to have one wastewater treatment works failure (out of 160) and one water treatment works failure (out of 16). We are undertaking root cause investigations and strict operational scrutiny to identify any actions or further mitigation measures required to avoid future failures.

We have maintained a very strong performance on wastewater treatment compliance over a number of years and have made considerable improvements in our water treatment works discharge compliance. Future permits will tighten as legislation changes. This will introduce new challenges and standards over the next five years and beyond, as well as tightening existing permit standards.

We will therefore need to adopt new treatment technologies and increase our emphasis on very efficient operational control. The pressures of increasing population, new housing, industrial development, and climate change will also challenge our performance.

We are also planning to meet future new and tighter standards and satisfy our obligations in working towards meeting 'Good' Water Framework Directive status in our rivers.

Pollution incidents

We aim to avoid causing any pollution from our operations. However, we occasionally experience problems in our water and wastewater systems that result in environmental harm to watercourses and the sea. This can happen when untreated sewage escapes from our sewers, pumping stations and treatment works as result of blockages, mechanical breakdowns, and power outages. They can also occur when we have burst water mains on our supply network with chlorinated water entering the water environment, or discharges from a water treatment works.

We continue to focus our attention on reducing the risk of this happening, and we are pleased that the number of more serious category 1 and 2 pollution incidents remains low at one in 2020. While incidents from wastewater continue to be lower than our PC, we've seen an increase in those attributable to our water treatment and supply networks and we're focusing on raising standards in this area.

We continuously learn and improve on our pollution performance through our company-wide zero-tolerance approach to it. By constantly examining all aspects of pollution through our pollution best practice group we can target our efforts to effectively reduce the number of incidents. In September 2020, we published our Pollution Incident Reduction Plan (PIRP), which details the activities we're undertaking to further reduce pollution.

One area of risk is spills from storm overflows. We began extensively monitoring our storm overflows more than 15 years ago for operational control, detection and response purposes and publish spill and duration data, known as Event Duration Monitoring (EDM), on our website. The information collected through EDM helps to inform our risk-based catchment screening and to prioritise future investment to improve storm overflows and reduce spills. We are also working with the Defra-led Storm Overflow Task Force towards future plans, increased transparency and policy changes.

Bathing water compliance

Our stretching performance commitment for 2020-25 is to contribute towards all the region's bathing waters being classified as 'Good or Excellent'. The COVID-19 pandemic impacted the EA's regulatory bathing water sampling during 2020 and, as a result, bathing waters in England were not classified for the 2020 bathing season.

The bathing waters in our NW operating region continue to be among the cleanest in the country. As sea water quality can be affected by several influences, such as run-off from agriculture, sea birds and urban pollution, we work in partnership to make improvements and maintain standards.

Cullercoats bathing water in North Tyneside had deteriorated from being classified as Good in 2016, to Poor in 2018 and 2019. We continue to work in partnership with the EA and the local authority to understand the reasons for the localised decline in bathing water quality at Cullercoats and to understand all bathing water quality compliance issues and identify priority beaches for closer attention. Working in partnership allows us to share information, plans and best practice. For example, making sure that signage (which we funded) under the EA's pollution risk forecasting system is in place, and understanding ambitions for more Blue Flag award beaches.

The second of our environmental outcomes presents our above and beyond approach to the wider environment. We have an ambitious goal to be leading in the sustainable use of natural resources, through achieving zero avoidable waste by 2025 and being carbon neutral by 2027. We also aim to demonstrate leadership in catchment management to enhance natural capital and deliver net gain for biodiversity.

We take care to protect and improve the environment in everything we do, leading by example

Leakage

Reducing leakage remains a key focus, and our goal is to have the lowest levels of leakage in the country in our water-stressed ESW operating area. We were on track to deliver our leakage targets for most of the year, but we experienced a significant freeze thaw event over the winter which caused a high number of mains bursts causing leakage to increase and we were not able to bring the level back down quickly enough to achieve our targets. We have instigated a leakage recovery plan to deal with the consequences of the high burst numbers over the winter.

Our focus remains on finding new and innovative ways working at each stage of the leakage process. We are investing in pressure management equipment to reduce the incidence of leaks and making greater use of correlating noise loggers to enable us to locate leaks more quickly and precisely. Innovative techniques are being used to detect leakage within our network, including the use of drones and data science technology, and we are improving how we prioritise repairs to reduce average leak run times.

Sustainable use of resources

Last November, Water UK launched the industry's Routemap 2030 – our sector's push to net zero. It's the world's first sector wide commitment of its kind and we're proud to be leading the way with our goal of being carbon neutral by 2027.

Eleven years ago, we committed to a carbon management plan with the aim of reducing our greenhouse gas (GHG) emissions by 35% by 2020 against a 2008 baseline. We were delighted to achieve this goal ahead of schedule in 2018/19, reducing operational emissions by 46% through a twin focus on energy efficiency and renewable energy.

Our investment in advanced anaerobic digestion at our major sewage treatment works at Howdon and Bran Sands made us the first, and still the only, water company to use 100% of our sewage sludge to create energy. We've enhanced our activities in energy creation further with the implementation our second gas to grid plant at Bran Sands.

All of our sites are powered using renewable electricity and we led the industry with our offshore wind power purchase agreement, which was the first of its type in the UK. Under this 10-year deal we source around 30% of our electricity demand from the Race Bank offshore wind farm.

We are also aiming to create zero avoidable waste by 2025. This will mean eliminating, re-using or recycling 90% of our waste from operations, and working with partners to contribute to the circular economy in their regions. We'll also continue our investment in natural solutions like reedbeds, which have provided environmental benefits in biodiversity and reduction in CO2 emissions.

Greenhouse gas emissions

Our ambitious goal is to achieve net zero carbon by 2027 and we have set challenging targets to reach this goal. We are pleased that we are ahead of schedule, reducing our emissions by more than double the target in our regulatory PC this year from 68.8 to 55.9 ktCO2e/Ml. More detail on these emissions is provided in the Directors' Report on **page 101**.

We've successfully gained external third-party assurance that all data relating to operational greenhouse gas emissions is compliant with the version of the international carbon reporting standard (ISO 14064, Part 1). The measure, following an audit by an appropriately qualified independent third party, includes all direct emissions, indirect emissions from the generation of purchased energy and other indirect emissions under the direct control of the Company.

Our plans to reach net zero carbon include further development of renewable energy generation, with the installation of around 15MW of solar generation in the next 18 months, and transition to a low emission fleet, through investment in electric vehicles and trialling biodiesel tankers. We also plan to deploy onshore wind at sites where suitable and sensitive to the environment and our communities. We are also developing our procurement process to give emissions appropriate weighting in contract awards and incorporating greenhouse gas emissions to our service value framework to ensure new capital schemes take account of the lowest economic emissions options.

Looking ahead, the use of Digital Twins, pilots of large-scale battery storage and the production of hydrogen in hydropower sites that cannot be connected to the grid are examples of how we are continuing to drive forward in this area.

Catchment management

Catchment management covers the whole water cycle and links across our water, wastewater and conservation activities. We carry out catchment work both across our own network and assets, and in partnership with others, working to influence and to make shared decisions to improve the environment and showing leadership in integrated catchment management. We initiated and chair the Water UK Catchment Based Approach Steering Group, which enables discussion of key issues, sharing of best practice and learning across the industry.

We work with farmers, land managers and other stakeholders to protect the water resources from which we source drinking water in our regions and are leading on two holistic catchment projects in the South Tyne (NW) and Blackwater (ESW) catchments. We are also delivering our Field to Tap scheme to allow land managers to apply for capital grants for items that will reduce diffuse pollution from their land and help improve water quality in rivers and reservoirs.

In our wastewater business we are leading on catchment approaches to delivering regulatory obligations such as phosphorus removal. Focusing on the Wear and Tees catchments, we are exploring catchment nutrient balancing, integrated constructed wetlands and other catchment solutions, in partnership with bodies such as the EA and Durham Wildlife Trust.

We also carry out conservation activities to protect and enhance biodiversity within our operating areas, such as increasing priority habitat and managing invasive non-native species. Under our new Water Environment Improvements commitment, we are delivering activities which focus on wildlife and biodiversity, water quality and recreational access to facilities, contributing to enhanced natural and social capital.

Case study

Creating a buzz with new diverse green spaces

There's literally a buzz in the air, following the creation and enhancement of wildflower areas to help support pollinating insects that are in decline.

The natural environment is essential to the work and services we provide for our customers. So, any opportunity to enhance the environment and increase biodiversity is very important to us.

We've changed how often we cut the grass at some of our operational sites, which will support biodiversity and protect valuable wildlife habitats that are under threat. Some have already shown promising signs of encouraging nature to thrive, with 62 species of plants recorded at one site alone.

We've also created new meadow areas at our head office and changed how we cut the grass at and around our reservoirs, service reservoirs, water and wastewater treatment works.

There are a range of plants blooming across our sites - from beautiful wildflowers to orchids. A variety of bees and other invertebrates like butterflies and day-flying moths are regularly spotted, along with various reptiles like snakes and lizards.

Miranda Cooper, Conservation and Land Manager, said: "We're delighted with the progress of changes to how we manage grassland, and are looking for further opportunities to expand this across more of our sites.

"These small changes are helping to make a big difference by providing important sources of nectar and pollen for insects, which are vital for pollinating many of the crops we eat. It's fantastic that we can contribute towards ensuring connected landscapes for our wildlife and helping reverse declines in biodiversity.

"It's amazing what can be achieved just by simply reducing the amount of times the grass is cut. It not only helps to create a pleasant workplace for our people, but also creates an invaluable habitat for wildlife and builds stronger resilience to climate change."

Competitiveness

Financial performance

A review of our financial performance and financing position is detailed in the Financial Performance and Structure section on **pages 51 to 54**.

Leading in innovation

Our innovation culture is building on a strong foundation and our ambitious goal is to be leading in innovation, both within the water sector and beyond. This year, we've used our pipeline and innovation processes to focus on the ambitious challenges we want to achieve which we set out in our PR19 Business Plan.

Our innovation ambassadors are at the core of this process, enabling and spreading an innovative culture across our business and driving the implementation of innovative new ideas so innovation becomes business as usual. This group has grown from 14 in 2018 to 67 people and includes seven external organisations that excel in innovation. We've set up the NWG Innovation University to offer bite-sized training that will come together as a cohesive programme covering the core elements of innovation.

Our finances are sound, stable and achieve a fair balance between customers and investors

We are an innovative and efficient company

Innovation Festival

Innovation is at the heart of all we do across the year, but our Innovation Festivals are an important element, given their outward facing nature. These events are now firmly established industry-wide and attract participants from across the globe. This year, we had the global pandemic to contend with so transferred the format to a fully virtual event for the first time in September 2020 and successfully delivered our biggest festival yet.

As well as building the digital collaboration skills of our employees and supply chain, we ran 388 hours of training for innovation festival participants, enabling our collaborative partner organisations as well. Approximately 3,000 people joined us from 900 organisations in 37 different countries with events in Australia, India and North America. The digital nature of the event meant it was very inclusive and attracted a more diverse audience than we would be able to work with in our normal business activities. The equivalent professional services value of this contribution is estimated to be between five and six million pounds.

The purpose of this year's event was to create new ideas to improve our business, but also accelerate the progress of existing ideas that require collaboration across organisational boundaries, such as the common underground map. Since our first Festival we have taken 150 ideas back into the business and put more than £1.5million back into the local economy demonstrating our convening power to bring others into our regions.

In 2020 we reached more people than ever across social media channels (LinkedIn, Twitter and Facebook), building up a strong innovation community with thought leadership and impactful content that reached more than 5million on Twitter and 10million on Facebook.

Innovate East
We held our first joint event, Innovate East, with Anglian Water in 2019 which was a first of its kind for the industry. We've used 2020 to build upon the six big ideas which sprang from the Innovate East event, including a water trading platform, cross-sector digital twin group and a water quality sensor business model.

For 2021, we've grown Innovate East to include Yorkshire Water and its focus will be the public interest commitment to achieve carbon neutral operations by 2030 that the three water companies jointly lead. A series of virtual events are planned for 2021, exploring the three themes of nature-based solutions, technology solutions and hydrogen. The events will culminate in a joint exhibition at the UN Climate Change Conference (COP 26) in November 2021.

Innovation fund
Ofwat's Innovation Fund competitions are further encouraging collaboration across the water sector and will enable us to run innovation projects which would normally be beyond our capacity.

For the first Water in Innovation Competition that ran in February 2021, we submitted eight bids for a wide range of innovation projects and collaborated on three other project submissions. We were pleased to be successful in securing two of the 11 funding opportunities.

The UK Water Sector Centre of Excellence will be an innovation accelerator hub that will encourage more innovation across the sector and open opportunities to a broader supply chain. We co-wrote and submitted this bid on behalf of the entire UK water sector.

We also secured £225,000 funding for a sector-first project to turn ammonia into green hydrogen fuel, collaborating with Organics, Wood Group, and Warwick and Cranfield Universities to create a pilot plant at Howdon.

This change in culture across the water sector will drive positive change. We are building an exciting pipeline of potential projects with a wide range of different businesses and organisations within and beyond our current supply chain. Collaborating on shared challenges will enable a step change on some of the especially tough challenges the sector faces, involving both current supply chain partners and businesses new to the sector.

Value from innovation
We're focusing on speeding up the achievement of value from innovation, by supporting the seed of an idea through to its becoming business as usual. We have a very active innovation pipeline with more than 80 ideas being considered across the business. To drive adoption in the operating business, we focus on supporting the strongest ideas to realise value from innovation.

We've been using our idea management platform (Amplify) to solve our big business challenges. The platform enables us to harness the creativity and expertise of our employees, supply chain, eco-system and beyond. So far, we've run eight challenges and have identified some game-changing solutions. An example is the seed idea for our successful Bin The Wipe campaign, which has significantly reduced the number of wipes being flushed, and therefore reduced sewer blockages. We also continue to use design thinking methods in the business and for our events, running over 30 design sprints in the year.

Case study

Open Data ‘Stream’

We’ve been running data hacks for a few years now and seen the benefits of giving data scientists the opportunity to derive new insights from our data. We’ve used this approach on projects aimed at addressing leakage, tackling flooding, and reducing spills from storm overflows.

Through our Innovation Festival and partnership event with Anglian Water, Innovate East, we’ve led various initiatives to share data with other organisations. The clearest example of this success in collaboration is the National Underground Asset Register (NUAR), where this open data approach led to a ground-breaking project now backed by the Government.

We’re determined to unlock more value from the data which the industry owns and harness other potential opportunities, by working together with other water and utility companies and innovation partners.

From this, we’ve developed ‘Stream’ – a collaborative open data initiative to take this forward across the sector. An initial strategy exercise on behalf of the sector was commissioned and we engaged management consulting firm Sia Partners, who’d already successfully adopted the same principles and approach to creating an open data strategy for the Royal Navy. They helped us learn best practice from other sectors.

The stages of this were to:

- Create a cross-industry approach to where value lies and for who;
- Identify critical and high value opportunities for the water industry and stakeholders; then
- Build an end to end model and opportunity roadmap that capitalises on open data by addressing gaps.

This formed the basis of an open data strategy that enables the water industry to collaboratively generate sustainable value.

The next step was to form a working group to develop a ‘proof of concept’. Over four weeks, 40 people from 12 companies collaborated on various workstreams. They tested three concepts aligned to strategic goals within the sector:

- inquEIRy: A functional prototype enabling users to query data sets subject to Environment Information Requests (EIRs). Water quality sample data was used (a typical EIR request) at postcode level from six companies with over 156,000 water quality samples. inquEIRy is capable of housing more than 10 years of all UK water companies’ sample data, and presents a highly investable quick win that can pave the way for more ambitious Open Data projects in the sector.
- Algaerithm: A design sprint for an algorithm that proactively flags the risk of harmful algal blooms in UK fresh water sources. Driven by rising temperatures, these blooms are a significant burden on the UK water industry, and climate change will only exacerbate their increase.
- AssetAlert: A feasibility study for a data system that identifies water asset problems before they occur and improves predictive maintenance processes. Asset data from four companies was analysed, converging on pump data due to high failure rates and associated maintenance costs. The staggering cost burdens associated with unplanned asset failures could potentially be reduced through wide-scale asset data pooling.

By working together to create a shared strategy and approach to open data we’re identifying answers to the challenges of what information is shared, how it is shared, and crucially how it is kept safe.

People

Great place to work

Our aspiration is for all our people, current and future, to have a positive experience at work and to understand the part they play to achieve our purpose, vision, outcomes and to deliver unrivalled customer experience.

In November 2020 we participated in the Great Place to Work survey, inviting all colleagues to share their views. 2,659 (86%) of colleagues provided their feedback, with 77% agreeing that this is a great place to work. With an overall Trust Index Score of 70%, an improvement on 62% in 2019 and better than our target of 65%, improvements were seen in colleague perception across all areas of the survey. Results mean the business is now listed as the 25th Best Workplace in the UK (Super Large category) and a Great Place to Work Certified Employer.

Lower areas of performance in the Great Place to Work results have been used to build a corporate plan. The priority area centred on recruitment, with many colleagues feeling transparency and accessibility could be improved. In early 2021 this was addressed with the launch of HYDRO (Helping You Discover the Right Opportunity), a fully accessible location for job vacancies and support with CV's and Interview Skills, along with more detail on the recruitment process.

Creating multiple channels for feedback and ideas is key to a positive working relationship. We engage with our employees through our Employee Relations Framework and through a range of communication channels including our weekly H2info e-bulletin, and digital tools such as our intranet and Yammer. Our networks and groups including Wellbeing Champions, Male Health Group, Young Persons Network, LGBTQ+Allies, Diversity & Inclusion Steering Group and Parents Network continue to be important sources for two-way communication.

Our bi-monthly Teamtalk events ensure everyone comes together to discuss performance and key areas of focus. After a session with our CEO, our leaders cascade to their teams with the support of a pack including videos and interactive activities to bring the message to life.

We continue to be accredited as a Living Wage Employer with the Living Wage Foundation, which means that every employee in the Company earns at least the Living Wage, an hourly rate set independently and calculated according to the basic cost of living for the UK.

We are seen as a great place to work

Early Careers Strategy

In 2020 we developed a new Early Careers Strategy. NWL has a clear vision to be the national leader in the provision of sustainable water and wastewater services. In order to achieve that ambition, we need to continuously build a workforce fit for now and the future. We have a clear responsibility to not only ensure we have the right skills to support our strategic ambitions but support the development of skills across the industry.

Our Early Careers Strategy will see us achieve the following:

- Offer at least 150 diverse students per year the opportunity to have some meaningful work experience with NWL to learn about the world of water and the skills and roles we have available;
- Recruit 100 apprentices over the next 5 years. We have already recruited 55 apprentices;
- Recruit 30 people onto the new Kickstart Programme, with 25 already recruited onto this programme for 2021; and
- Launch a new talent programme aimed at increasing the diversity of our employee base. We've developed an Innovate Futures Programme aimed at recruiting 20 BAME and female engineering students to undertake 4 weeks work experience.

Colleague development

We continue to provide apprenticeship opportunities for colleagues looking to expand their career and skills. We currently have 145 upskillers completing an apprenticeship in the business with 45 apprentices recruited in 2020.

We have robust development plans in place for colleagues undertaking technical roles e.g. Water Supply – the Competent Operator Scheme (Level 3 Qualification).

Colleagues have access to mentoring opportunities, online learning and a range of training and development in line with their role. In addition, we offer qualification loans if they wish to undertake a qualification which isn't directly relevant to their role.

Leadership and management development

Our leaders and managers have access to a range of development and support in order to enhance their leadership practice and build high performing teams. Development includes the following:

- New people managers induction programme to support new managers to fully understand their role, company policies and how to lead well at NWL;
- Positive progress sessions open to managers in 2020 to come together and discuss the new way of leading teams remotely;
- We hold two Leadership Conferences each year where leaders come together and discuss business performance and enhance their leadership thinking and practice through discussion and access to keynote speakers; and
- Online learning videos on a range of topics related to leading others.

Diversity and equal opportunities

We recognise the value and importance of diversity and inclusion in our workforce. Our customers come from a wide range of backgrounds, and our workforce needs to reflect that in both ambition and aspiration.

Research shows that diverse organisations consistently perform better, attracting great people, making better decisions and successfully innovating and evolving. If we are to achieve our vision, we need to grasp this opportunity for improving performance through creating an environment where all our people can be themselves and do their very best each day.
Our Respect at Work Policy seeks to ensure that all our current employees and potential employees are treated with respect. We welcome job applications from all parts of the community and it is our intention that all job applicants and employees are treated equally, regardless of their age, ability, marital or partnership status, race, religion or belief, gender or sexual orientation. In 2020 we became a signatory of the BITC's Race at Work Charter and are embedding the five commitments within planning.

As a Disability Confident Committed Employer we welcome employment applications from people with disabilities, having inclusive and accessible recruitment and making reasonable adjustments to accommodate applicants.

In addition to commitments we are exceeding the activities by offering opportunities through work experience, apprenticeships, and student placements. Where existing employees develop disabilities, they are supported to remain in employment, wherever practicable, by providing appropriate adjustments to their roles and/or effective training or redeployments. Occupational health physicians assist this process with professional medical advice.

Gender Diversity at 31 March 2021

Name	Female	Male
Board	2	7
Executive Leadership Team (ELT)	5	7
Full Company	974	2,084

In the year since our last report, we have focused on creating positive change and increasing diversity within a number of key areas of our business. Using organisational change opportunities, we have made a real impact in these areas. For example, our Information Services Directorate now has a leadership team balanced at 50% female compared to 29% previously.

Our Diversity and Inclusion Strategy, 'TIDE' (Together for Inclusion, Diversity and Equity), launching in 2021, details our roadmap to build on this and deliver further progress on this vital agenda. We are reviewing partnerships we have in place to further this work and will be investing in maximising the value and insight we can get, working closely with the WISE (Women in Science and Engineering) campaign, the Energy and Utility Skills Partnership, Stonewall, AFBE (Association for black and minority ethnicity Engineers), Common Purpose (Social Mobility) and local disability groups. In 2021 we are launching Innovation Futures, partnering with AFBE in year one to help provide opportunities to engineers from under-represented groups.

Gender Pay Gap Report

We are committed to the principle of equality of opportunity and equal treatment for all our employees. We published our gender pay gap figures in our Gender Pay Report March 2021, which is available on our websites. We continue to make progress and our gender pay gap is reducing, but we are not complacent and we know that we have to do more to improve inclusion at all levels of our organisation.

The gender pay gap is the difference between the average hourly pay for all the men and women working for the same organisation. It's not the same as equal pay, which is about a man and woman receiving the same pay for performing the same or a similar job.

The mean gender pay gap is the percentage difference in the average hourly pay for women compared to men. The median pay gap is the difference between the hourly pay rate for the median woman compared to the median man.

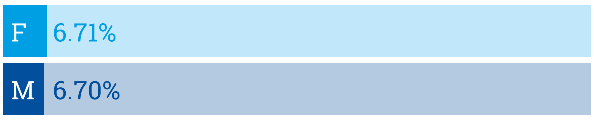
Although we are proud of our work on diversity, we know there is more we can do. We are using data, insight and powerful, positive relationships to challenge our thinking and understand our business and opportunities. Building on our Great Place to Work achievements includes creating a framework for an inclusive and diverse workforce, one that creates the conditions in which people can bring 'yourself' to work and allow others to do the same. Over the next year, we will focus on:

- Delivering year one of our TIDE D&I Strategy;
- Utilising role models from inside and outside the business to inspire, support and develop under-represented talent;
- Encouraging our female leaders to support emerging talent through mentoring;
- Engaging in the wider conversation about equality in the Utility sector, through our involvement in initiatives such as EU Skills;
- Using our internal networks to continually challenge and identify areas for opportunities;
- Continuing to ensure that, wherever possible, shortlists for senior roles have a balance of genders and ethnicity;
- Promoting our apprenticeship opportunities to encourage applications from females; and
- Focusing on departments where gender balance is more challenging.

NWG median gender pay gap 2020

NWG mean gender pay gap 2020

Proportion of men and women paid a bonus



NWG median bonus gap 2020

NWG mean bonus gap 2020

Health and safety

It is our aspiration and ethical responsibility to make sure that everyone goes home safe every day, which extends to our employees, supply chain partners and customers. The COVID-19 pandemic had a dramatic impact on the operational business with new ways of working being created to keep our employees and customers safe while maintaining our essential services. New policies, procedures and tools were constantly developed along with new PPE protocols, including a new COVID – 60 Second Check App (see case study on **page 25**).

We were disappointed to have nine lost time reportable accidents in the year and seek to learn lessons from each accident or near miss. Each lost time accident, and high potential incident, is discussed on our weekly learning call which is open for all employees to join. Any actions identified from the incidents are tracked by the ELT on a monthly basis. Health and safety is also the first item on the agenda at each Board meeting.

We continued to work on our established safety awareness tools within the business and our people voluntarily carried out 88,500 '60 second checks', 66,000 COVID 60 seconds checks, 7,147 safety conversations and 2,929 hazards were spotted and reported within the business. All of these measures demonstrated a significant increase compared to the previous years performance. Our managers and leaders conducted 7,147 safety visits and 1,998 contractor safety audits demonstrating a commitment to visible safety leadership.

We also continued to develop our systems and procedures despite the disruption of the pandemic and launched a new Health and Safety Handbook for all our operational employees.

During 2021 the Health and Safety team are carrying out a series of assurance visits, focussing on the top 12 hazards across the organisation. These visits are designed to provide assurance that high hazard activities are being effectively managed. Activities under review include chemical-related tasks, manual handling activities, lifting operations, construction activities and contractor activities, and include a wide range of teams and supply partners across the organisation.

Our workplaces are healthy and safe

Wellbeing

The COVID-19 pandemic brought an extra focus to the importance of looking after our mental health and wellbeing. We took the opportunity to review our wellbeing offer and how we could make it more accessible. In summer 2020 we undertook a sprint-based project to identify how we could better support our colleagues throughout the lockdown winter months. The outcome was a digital based solution, Living Well, that took a holistic and highly human approach to wellbeing based on the Danish Hygge concept. The site, built using Google Analytics, is simply split in to three areas – Mind, Body and Social and contains all health information and services in one place.

Living Well has increased colleague access, with over 3,000 colleagues accessing the site since early November 2020. Between 25%-35% weekly users access via a mobile device, showing it is accessible for all colleagues whether in an office, at home or in the field. Usage of the Employee Assistance programme (EAP) has also increased with 28% increase in colleagues calling to discuss personal issues and a 33% increase in managers contacting the EAP to seek advice to support their teams. In recognition of investment and impact in Health and Wellbeing we were awarded Better Health at Work Ambassador Status and Great Place to Work Centre of Excellence in Wellbeing Status, along with two prestigious national Awards (see case study on **page 45**).

Our network of Wellbeing Champions supports our people by ensuring their teams are aware of Living Well and support awareness campaigns such as Mental Health Awareness Week. Our 25 active Mental Health First Aiders have continued to support colleagues throughout the business and played a critical role during 2020. In 2021 we have committed to trebling our number of Mental Health First Aiders, building improved ways of supporting and enabling the critical role they play.

Case study
Wellbeing Ambassadors

In recognition of our long-standing commitment to, and outstanding delivery of, workplace health and wellbeing we were named a Wellbeing Ambassador.

Following our achievement of being identified as a Centre of Excellence for Wellbeing 2020/21 by the Great Place to Work Institute, we have now been awarded Ambassador Status as part of the 2020 Better Health at Work Award assessment process.

Having been a member of the Better Health At Work Award programme for eight years, the award, a partnership between the region's local authorities and co-ordinated by the Northern TUC, recognises the efforts of employers in the North East and Cumbria in addressing health issues within the workplace.

This prestigious status is awarded to a select few each year and goes to those employers who demonstrate both long-term commitment and outstanding practise around workplace health and wellbeing, going above and beyond at every stage of assessment.

As part of our employee health and wellbeing digital platform - Living Well - we provide fantastic financial wellbeing support, physical health sessions that include desk yoga and Pilates and resilience building workshops for our people. We support annual events such as World Mental Health Day, World Kindness Day and Men's Health Week, providing tailored information on specific issues.

Kay Penney, our Group HR Director said: "This recognition demonstrates our commitment to the wellbeing of our employees, who are at the heart of everything we do and something we feel very passionate about.

"We know that this year has been particularly tough on everyone in one way or another, and social distancing has had a great impact to our mental health - and this has had an impact upon the way we all work, whether that's out in the field, in an office, or from home. Keeping our people connected digitally throughout this time - wherever they carry out their work - has been imperative in ensuring great health and wellbeing in the business."

Beth Farhat, Regional Secretary for Northern TUC said: "Northumbrian Water have delivered a fantastic award submission, reinforcing their contribution to social values. During the COVID-19 pandemic they have demonstrated how the health and wellbeing of their employees remain the highest priority within the organisation. Northumbrian Water's attitude to the 'Whole Person' approach through their living well initiatives should be applauded, congratulations on achieving ambassador status. "

More information about the Better Health at Work Awards can be found here:
www.betterhealthatworkaward.org.uk

Communities

Being part of the community in the areas in which we operate is fundamental to our history and part of our DNA. We operate within three defined geographical areas, with our assets in every part of the region, and our employees, their families and their friends are our customers too. We have set ourselves the ambitious goal of being the most socially responsible water company. In our efforts to achieve this ambitious goal, we are building from a strong starting point, which includes our long-standing practice of ensuring more than 1% of pre-tax profit is committed to community investment.

We are committed to playing a full part in the life of our region and using our resources to make a positive impact wherever we have opportunity. There are many ways we add value in our region beyond our core services, making use of our skills, assets and experience. We also recognise that our investment has a 'ripple effect' through local economies, which is why we work hard to grow the proportion we spend with suppliers within our operating area.

Over the past year we have been developing a new Community Investment Strategy to be launched in the summer of 2021. This is designed to focus our attention on the social and environmental issues which matter most to our customers, that are closely connected to our Purpose and our ambitious goals, and where we believe that we have a responsibility to take a lead role. These include tackling water poverty, water for health, and enhancing the water environment. Our support for these initiatives will include cash donations, in kind and volunteer resources, and will increasingly involve us taking an activist approach, leading a drive for positive change on these issues in our communities.

We are proud to support our communities by giving time and resources to their important causes

We work in partnership with companies and organisations to achieve the goals that are most important to our customers

Employee volunteering

We are proud of our long-standing 'Just an Hour' employee volunteering scheme, through which each of our team has the opportunity to give a minimum of 15 working hours to support community initiatives. In total we supported 230 charitable and community organisations in 2020. While COVID-19 has limited opportunities for this due to the cancellation of many community events, we have also sought out ways our employees could help our communities in the pandemic.

Through our Making a Difference campaign, we offered £250,000 of in-kind support through volunteering by more than 160 of our people, whose time was gifted to charitable endeavours in order to ensure no colleagues were placed on furlough when they were unable to do their usual jobs. This enabled our people to donate their time supporting great causes and helping 18 organisations, including the NHS and St John's Ambulance with support that ranged from collecting vital medical prescriptions and essential food parcels, to talking on the phone with people feeling socially isolated.

We have provided our Boldon House office in Pity Me, Durham to be used as the Arnison Vaccination Centre for Durham. More than 50 of our colleagues have volunteered to help clinical staff run this centre, along with other vaccination sites in the North East.

Laptops for Kids

In 2021, Northumbrian Water was one of the founding partners in the Laptops for Kids campaign to provide computer equipment for school students working from home due to COVID-19 restrictions. This followed on from individual donations of 75 laptops and refurbished desktop computers for schools to give to students in our operating area in 2020. Out of this, we and our partners identified a wider need and the opportunity to help source more donations through our contacts in the regional business community. We donated a further 90 laptops to the campaign, which encouraged donations of more than 2,000 laptops from other individuals and companies. In addition, we gave out 100 4G dongles to families in need of support for connectivity. (See case study on **page 48**).

Water Rangers

Through our Water Rangers initiative, set up in 2014, trained customer volunteers carry out regular patrols of 74 kilometres of waterways in our North East operating area, identifying any issues that may lead to negative environmental impacts.

We now have a team of 67 volunteers and 16 assistant Water Rangers who monitor 56 routes more vulnerable to pollution threats across the region. Last year, our volunteers carried out more than 2,000 individual patrols.

Branch Out

Our Branch Out fund was set up in 2013 to support local community groups, organisations and individuals with projects to benefit the natural environment here in the North East. This is geared towards projects to reconnect habitats for the benefit of people and wildlife, to help manage or eradicate invasive non-native species, or landscape scale projects to create or restore priority habitats.

Since its launch it has invested more than £530k and supported 131 different projects. This money has contributed towards other match-funding sources to secure a £10 million wider partnership investment.

Last year, we supported 12 projects through Branch Out with grants totalling £60,000. Among other benefits, this led to 118 hectares of wetland being created and 84.9 hectares enhanced. In addition, we launched two new funds this year: Branch Out INNS, which allocated £52,000 to 11 projects to protect against invasive non-native species; and Branch Out Priority Habitats, which allocated £66,000 to a further five projects.

Local procurement

Our ambitious goal is to spend at least 60p in every £1 with suppliers in our operating regions.
This forms a key part of our Responsible Procurement Strategy, which includes several additional initiatives:

- targeted local supplier engagement at 'Meet the Buyer' events;
- mobile supplier engagement using our customer engagement vehicle 'Flo';
- producing 'Procurement in the Community' - an educational pack to inform local SMEs about our procurement process and procurement by utilities more widely;
- launching an internal procurement handbook giving advice on low value procurement, including considering local sourcing; and
- developing a network of our major contractors to enable sharing and learning on issues such as health and safety, sustainability, and Covid safe practices.

Our 2020 data indicates that we spent 58% with local suppliers. This puts us in a strong position to achieve our goal of 60% by 2025.

We have identified a number of opportunities to develop this further including improved incentivisation and promotion of our approach to our capital framework partners; engaging local supply chains in procurement strategy development; examining the potential to include 'local' criteria in our evaluation process, and updating our Supplier Charter to include a commitment on local spend.

Case study
Computers for schools

When the pandemic hit, the UK went into lockdown with schools across the country closing and quickly having to adapt their teaching methods and move to digital remote learning.

Many young people in the regions we serve were in danger of being left behind because they lacked access to the internet or the right equipment to take part in online learning.

As part of our community investment work, we supported children learning from home throughout the pandemic by donating hundreds of laptops and computers to children in our operating areas. We also donated 100 4G dongles to the Northern Powerhouse Laptops for Kids campaign to help support pupils with home schooling.

The laptops and equipment enabled pupils to continue with online learning, complete assignments and projects and keep in virtual contact with their teachers and fellow classmates.

It followed us expanding our free online educational resources, launched last month to support teachers and families with home schooling. For more detail about these resources, please see our case study about PCC.

One school that benefited is Castle View Enterprise Academy, which we also sponsor. Castle View teaches 11 to 16-year olds from the Castletown, Town End Farm, Bexhill and Hylton Castle areas of Sunderland and its Principal, Janet Bridges OBE, said: "We're grateful to Northumbrian Water for their kind generosity and thank them for their ongoing support.

"The laptops will certainly come into good use for some of our pupils, who've had limited or no access to a device to help support with online learning.

"It's been a challenge at times, but the amazing team of people I work with have really stepped up to ensure all students and families receive the best possible support from us.

"Now we can expand the high standard of education we pride ourselves on delivering to even more pupils, through online classes and teacher interaction."

Nigel Watson, Group Information Services Director at Northumbrian Water, said: "Supporting our local communities is at the heart of what we do and we're delighted to work in partnership with Castle View Enterprise Academy, to help support pupils that don't have access to a device or tablet with home schooling.

"These laptops will support students with online learning and help support their vital learning and development. They also ensure interaction with their teachers during these really challenging times for everyone."

For more information about our free online educational resources, visit: **www.nwg.co.uk** and head to the 'Responsibility' section of the website.

Reputation

We place great importance on our reputation and we want our customers to say we are a company they trust. As a provider of essential services, being trusted by our customers really matters and we carry out quarterly independent surveys to measure this. We are pleased that our trust scores have remained consistently high through the COVID-19 pandemic.

Just Add Water is our overarching brand building campaign. It is informed by data and seeks to support our customer service objectives by targeting customers with messaging that improves awareness and perception.

In 2020 we were delighted to be named Water Company of the Year at the Water Industry Awards, which recognised all-round excellence in customer service, agenda-setting innovation, operational resilience and workforce best practice.

We were also once more, for the tenth time, the only water company to be named on the World's Most Ethical Companies list compiled by the Ethisphere Institute. This was in recognition of work investing in our communities, supporting our people and championing a corporate culture focused on ethics and a strong sense of purpose.

It is important to us that customers and other stakeholders have a high level of trust in our governance and assurance arrangements. We published Our Assurance Plan for 2020/21, following consultation with customers and stakeholders, setting out how we intend to meet our obligations and commitments and providing information of appropriate quality. We have published a Data Assurance Summary as part of our suite of annual reporting which describes what assurance we have carried out on our data reporting any key findings. This confirms there were no significant issues to report.

Our assurance framework builds upon our company-wide accreditation, including to: ISO 14001 Environmental Management; ISO 55001 Asset Management; and ISO 17025 Sampling and laboratory analysis accreditation. This year we also achieved the demanding ISO14064-1 standard for Emissions Reporting.

Our customes say we are a company they trust

Water Matters

CCW's Water Matters research is published each year, based on interviews with hundreds of bill payers. It covers experiences of a wide range of services provided by water and sewerage companies, asking about satisfaction levels, perceptions of value for money, communication, and awareness of additional services.

The report published in 2021 rated Northumbrian Water the top water and sewerage company for seven of the 28 measures, including overall satisfaction with water supply, reliability of water service and minimising sewer flooding. We were above average for 25 measures, including trust, on which our figures improved significantly on the previous year.

The report did highlight gaps in perception between Northumbrian Water and Essex & Suffolk Water that we are working hard to understand. It also highlighted the need to raise more awareness of our priority services and financial support.

Responsible Business Tracker

NWL was named a Responsible Business Champion in the 2020 BITC Responsible Business Awards, recognising our environmental leadership efforts. We were the only water company cited in the Environmental Sustainability Leadership Award category, alongside another four respected companies. The BITC awards, which are held annually, recognise outstanding contribution from companies demonstrating strong, inclusive leadership that puts social and environmental values at the core of their business. This came following our completion of the BITC's Responsible Business Tracker benchmarking tool.

Case study

Ethisphere - tenth time!

In February 2021 we were named the world's 'most ethical' water company for the tenth time. One of only five UK companies, and the only water and sewerage company in the world to be named in this year's World's Most Ethical Company® list, we demonstrated strong ethical performance, supporting our customers, communities, the environment and our people in the last year.

The list gives world-wide recognition from the Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices. From around the world, only 135 companies across 47 industries in 22 countries were recognised. These companies have illustrated their driving force for improving communities, building capable and empowered workforces, and championing corporate cultures focused on ethics and a strong sense of purpose.

This recognises our commitment to our customers, communities and the environment. We have set ourselves ambitious goals to eliminate water poverty within our operating areas by 2030 and being operationally carbon neutral by 2027. Over 1,800 of our sites are already powered by renewable energy and we have also continued to support environmental projects in the community, donating £165,000 in 2020 to environmental groups in our operating areas to help sustain their hard work.

Our employees have used work time to support 230 organisations through our employee volunteering scheme, Just an Hour. This included supporting events such as Mission Christmas which saw us transport presents to be delivered to children living in poverty. More than 160 of our people supported charities like The Trussell Trust, Age UK and Essex Voluntary Blood Service during COVID-19.

Our CEO, Heidi Mottram said: "To be recognised globally as one of most ethical companies and to be the only water and sewerage company in the world to make the list is a fantastic achievement. I feel incredibly proud and honoured that our people have received this honour for the tenth time. This recognition would not be possible without our amazing teams, who put this passion into their work every day, caring for our customers, for the environment, our communities and our people, delivering services that people simply couldn't imagine life without.

"It's a privilege that our customers put their trust and confidence in us and the work we do every day. We're committed to providing the best possible service for our customers at the best value and doing this in the right way for the environment, our communities and our people. Being included in this list is a wonderful recognition of this."

Ethisphere CEO, Timothy Erblich, added: "While addressing the tough challenges of 2020, we saw companies lead - above all other institutions - on earning the trust of stakeholders through resilience and a commitment to ethics and integrity. The World's Most Ethical Companies honourees continue to demonstrate an unwavering commitment to the highest values and positively impacting the communities they serve. Congratulations to everyone at Northumbrian Water Group for earning the World's Most Ethical Companies designation."

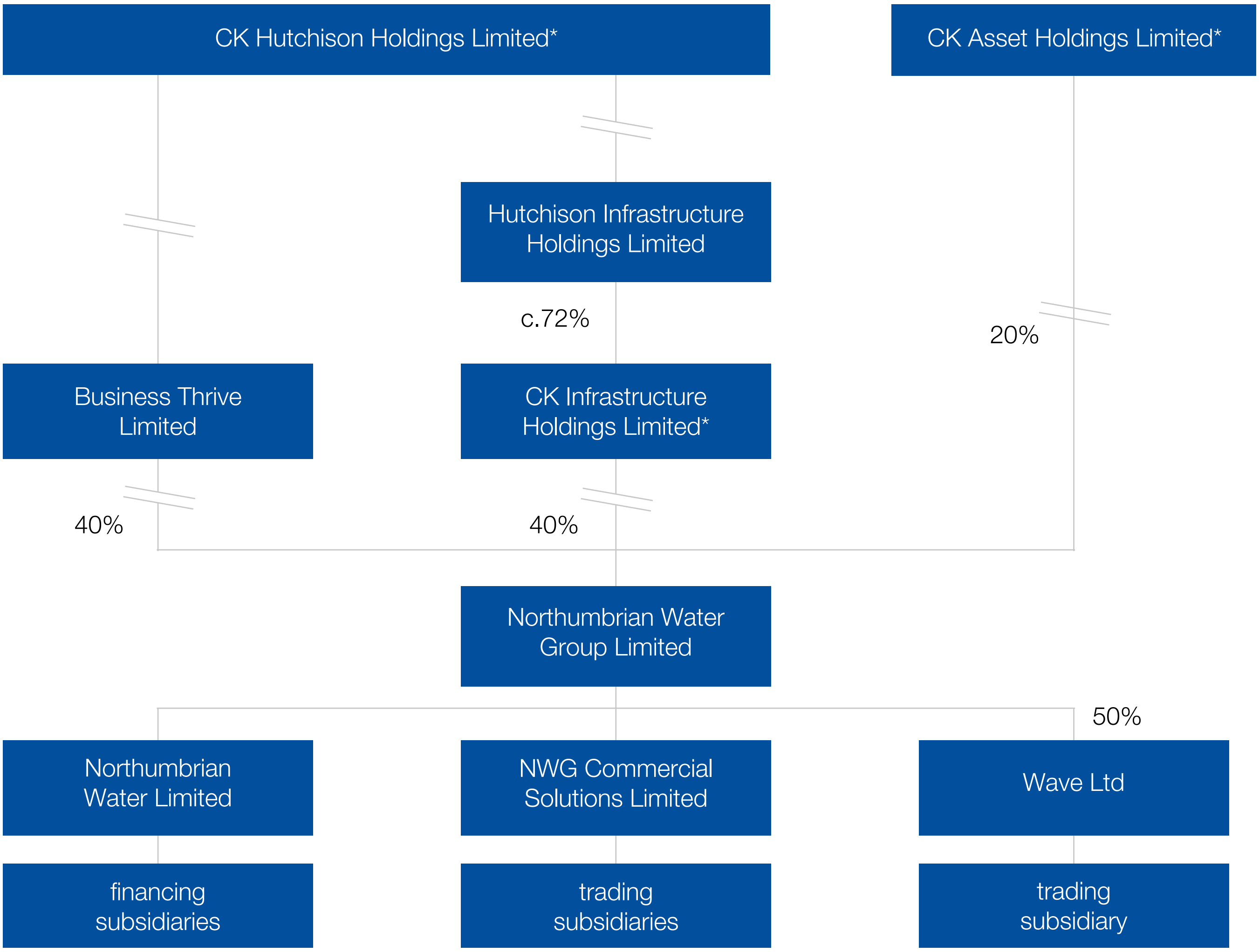
Financial performance and structure

Group structure
NWL is a wholly owned subsidiary of Northumbrian Water Group Limited (NWGL). NWGL has one other direct subsidiary, NWG Commercial Solutions Limited, which acts as a holding company for other non-regulated trading companies. NWGL also owns 50% of a joint venture company, Wave Ltd. which, through its trading subsidiary, carries out Non-household (NHH) retail activities in England and Scotland.

The chart below shows the structure of the Group and the upstream links to CK Hutchison Holdings Limited (CKHH).

The chart shows the principal intermediate holding companies, which are wholly owned unless otherwise shown. On 21 May 2021, CK Asset Holdings Limited acquired Li Ka Shing Foundation's indirect interest in NWGL. The 40%/40%/20% split above NWGL represents the economic rights in NWGL under its Articles of Association.

CKHH, CK Infrastructure Holdings Limited (CKI), Business Thrive Limited and NWGL have provided Ultimate Controller undertakings to the Company in accordance with the provisions of the Company's Instrument of Appointment (Licence).



* Companies listed on The Stock Exchange of Hong Kong Limited

Financial performance

The financial KPIs we report in our balanced scorecard on **page 23** reflect the financial covenants underpinning our committed bank facilities and regulatory gearing, which are reported at each Board meeting. These KPIs all remained better than the target for the year.

The Company's income statement, statement of comprehensive income, balance sheet, statement of changes in equity and cash flow statement are set out on **pages 108 to 111**. The Financial Statements have been prepared on an historical cost basis in accordance with Financial Reporting Standard (FRS) 101, reflecting International Financial Reporting Standards (IFRS) with reduced disclosures. The key accounting policies are summarised in note 1 to the Financial Statements on **pages 112 to 120**.

Revenue was £758.4m for the year ended 31 March 2021 (31 March 2020: £900.4m). The reduction of £142m principally reflects the outcome of the Ofwat PR19 FD which reduced allowed regulatory revenue by around £129m. The CMA FD redetermination will come into effect in revenue from 2022/23. The regulated revenue reduction has been further exacerbated in the year by the impact of the COVID-19 pandemic. This had a particular impact on non-household revenue with reduced activity resulting in revenue being £25.6m lower than expectations. In contrast, household revenue was £19.5m higher than expected as a result of the change in working patterns during the year with more of our customers working from home.

Other appointed business revenue increased by £3.4m due mainly to an increase in revenue from renewable energy as part of our net zero carbon strategy. Non-appointed revenue fell by £8.6m due to a combination of lower cost recovery under the Kielder Water Resources Operating Agreement (WROA) and a reduction in leisure activity during the COVID-19 lockdowns.

Operating costs, including capital maintenance costs, for the year ended 31 March 2021 were £563.4m (31 March 2020: £541.6m), an increase of £21.8m. The most significant factor in this increase was a step change in abstraction charges of £18.8m following a consultation by the EA related to recovering additional costs under the WROA.

Depreciation and amortisation charges, resulting from our capital investment programme, increased by £4.5m.

In relation to COVID-19, we have retained the £6.5m provision against bad debt risk made in the prior year. Cash collection during the pandemic has remained good so far but we are aware of future risks as government support schemes such as furlough are removed. We also experienced very high levels of water demand due to the changes in working patterns and incurred additional costs to mitigate COVID-19 risk for our employees. Other inflationary pressures in costs were partially offset by efficiencies.

Net interest payable was £111.0m in the year ended 31 March 2021 (31 March 2020: £112.4m). The reduction of £1.4m relates to principally to lower accretion on index-linked bonds due to lower inflation during the year, less adverse movements on the market valuation of derivatives compared to the previous year. See note 6 to the Financial Statements for further detail. Profit before taxation for the year ended 31 March 2021 was £84.0m (31 March 2020: £246.4m), reflecting the substantial reduction in revenue.

The current tax charge for the year ended 31 March 2021 was £12.0m (31 March 2020: £38.9m). The reduction in the charge mainly reflects lower profit before tax. The deferred tax charge for the year ended 31 March 2021 was £1.9m (31 March 2020: £58.9m). The significant reduction in the charge is due primarily to a restatement of deferred tax from 17% to 19% in the prior year. This reflected the decision by government to reverse the planned reduction to 17% which had been previously enacted. Further details of the net tax charge are provided in note 7 to the Financial Statements. Profit for the year ended 31 March 2021 was £70.1m (31 March 2020: £148.6m).

No dividends were proposed, approved or paid in respect of the year ended 31 March 2020 and no dividends were approved or paid during the year ended 31 March 2021. This reflected the impact of the PR19 FD and uncertainty surrounding the CMA redetermination process. After the balance sheet date, the Board approved the payment of a final dividend of £123.3m, taking account of the Company's financial position at 31 March 2021, cumulative financial performance over the two years since the previous dividend payment and the impact of the CMA redetermination on the five year plan. The dividend policy, and how the policy has been applied in the year, is explained in note 8 to the Financial Statements.

A special dividend of £159.0m was proposed and paid from the non-appointed business after the balance sheet date for the purpose of settling a legacy intercompany loan arrangement between the non-appointed business and NWGL, following discussions with Ofwat. More information is provided in notes 8 and 11 to the Financial Statements.

Capital investment

Total fixed asset additions in the year ended 31 March 2021 were £264.5m (31 March 2020: £280.4m), including intangible assets. Around £174m of this investment related to the maintenance of our asset base to ensure the continued provision of sustainable water and wastewater services in the areas we serve. In addition, we commenced our AMP7 enhancement programme which will deliver environmental improvements through the Water Industry Environmental Programme, improved resilience of our water and wastewater assets, as well as cyber resilience, and smart metering.

Significant investments in the year included the substantial completion of our investment in new asset systems under our intelligent asset management programme, investment in new water treatment works in the Berwick area and significant investment in our wastewater network to prevent pollution and flooding.

Capital structure and liquidity

No new long-term debt was issued during the year. The Company's long-term debt structure therefore remained largely unchanged with 60% fixed at an average rate of 4.44%, 39% index-linked at an average real rate of 1.27% and 1% on a variable rate basis, after allowing for hedging instruments. The blended average nominal rate for the Company for the year ended 31 March 2021 was 3.75% (31 March 2020: 4.22%), a reduction on the previous year due to lower inflation.

Our committed five-year bank facility of £450m, which is for the purpose of maintaining general liquidity, was undrawn at 31 March 2021. During the year, the maturity date of this facility was extended by a year to December 2025.

Our Regulatory Capital Value (RCV), on which our allowed regulatory revenue is based, reduced at the start of the new price review period to reflect reconciliation adjustments ('midnight adjustment') related to performance in the previous price control period and other adjustments for land disposals and a change in accounting for leases. As a result, the closing AMP6 RCV we reported at 31 March 2020 of £4,316.2m was adjusted to an opening AMP7 RCV of £4,137.5m, mainly as a result of significant wholesale totex outperformance in AMP6.

Our RCV at 31 March 2021 was £4,196.4m, reflecting the revised FD from the CMA redetermination and a combination of CPI(H) and RPI indexation.

As a consequence of the midnight adjustment to RCV the gearing KPI, which is measured per the financial covenant for the committed facility and excludes loans receivable, increased from 67.8% to 69.9%, still well within target. Likewise, regulatory gearing also increased from 67.2% to 69.5%, below our target level of 70.0%. Interest cover reduced from 4.0 to 3.0 due to the significant reduction in EBIT caused by the FD revenue reduction, but remained better than target.

In April 2021, following the conclusion of the CMA redetermination, the Company's strong investment grade credit ratings were reconfirmed. Moody's affirmed its rating of Baa1 with stable outlook. Standard & Poor's (S&P) affirmed its rating of BBB+ (negative outlook). We report on our financial resilience in our viability statement on **pages 104 to 106**.

Treasury policies

The Board is responsible for the financing strategy of the Company which is determined within treasury policies set by NWGL. The treasury policies set out how the risks associated with treasury activities are managed, which are summarised below. On occasion, derivatives are used as part of this process, but the treasury policy prohibits their use for speculation.

Funding risk

The level of capital expenditure which NWL is obliged to incur is such that we cannot be wholly cash financed by internally generated sources. As a result, we must rely upon raising additional finance on a regular basis, to be principally used to fund the long-term assets required by the regulated business. In order to raise this finance efficiently, the Board's aim is to retain prudent investment grade credit ratings. A reduction in the credit rating would likely restrict future sources of funding, increase the associated cost of new borrowing and prompt discussions with the European Investment Bank (EIB) about the existing facilities in place.

Liquidity risk

The Company's policy is to have available standby committed bank borrowing facilities with a value of no less than £50m and with a bank agreement availability period of no less than three months. At 31 March 2021, NWL had £450m (31 March 2020: £450m) of undrawn bank facilities, provided by a group of five key relationship banks, which mature in 2025.

Interest rate risk

The Company finances its operations through a mixture of retained profits and borrowings. It borrows at both fixed and variable rates of interest and, on occasion, uses derivatives to generate the desired interest profile and to manage its exposure to interest rate fluctuations. The Company's policy is to keep a minimum 50% of its borrowings at fixed rates of interest. At 31 March 2021, 60% (31 March 2020: 61%) of the borrowings of the Company were at fixed rates of interest. Index-linked borrowings are treated as variable rate debt.

Credit risk

The Company invests surplus cash with banks on a short-term basis. The treasury policy specifies which counterparties the Company can invest with and sets a limit for the maximum exposure to each counterparty. These limits take account of published credit ratings. There is no material customer credit risk as no individual customer accounts for a significant proportion of income or debt. Note 1(o) of the Financial Statements sets out the Company's bad debt policy.

Foreign currency risk

The Company's policy is that any foreign currency exposure in excess of £100,000 sterling equivalent of a transactional nature, or £3m sterling equivalent of a translation nature, should be covered as soon as they are identified. At 31 March 2021, the Company had forward foreign exchange contracts of £5.1m (31 March 2020: £1.8m) for the purpose of hedging the foreign currency risk of committed future purchases.

Market price risk

The Company's exposure to market price risk principally comprises interest rate exposure. The Company's policy is to accept a degree of interest rate risk. Based on the Company's analysis, it is estimated that a 1% rise in interest rates would not have a significant effect.

Risk report

Risk Management Framework

The Board sets the tone for risk management within the Company, supported by the R&CSC, and determines the appropriate risk appetite. The Board's view of acceptable risk is based on a balanced view of all of the risks in the operating environment and it aims to ensure an appropriate balance between risk aversion and opportunities. The Board's approach to monitoring, managing and mitigating risk, and the work undertaken by the R&CSC during the year, is set out in the Governance Report.

The ELT implements policies on risk management and internal control, ensuring that risks are appropriately controlled, managed and reported and that remedial action is taken as appropriate. The Company's approach to risk management is set out in our Risk Management Framework, which has been endorsed by the R&CSC, and is managed through a corporate risk model.

The Risk Management Framework sets out our process for identifying, analysing and evaluating risk across the business. Risk champions within each area of the business co-ordinate the identification and assessment of risks for their area of responsibility and record these in a departmental risk register. Risk champions meet on a quarterly basis to share learning and ensure consistency of approach.

Each risk is assessed against defined likelihood and consequence criteria on both an unmanaged and managed basis, producing a risk score. The management controls and responsibilities are documented and the effectiveness of the control assessed. An assurance map details the external and internal assurance provided over the controls. We also set a target risk and, where this is below the current managed risk score, set out an action plan to achieve the desired risk reduction.

Those risks in the departmental risk registers with a managed risk score above a defined threshold are classed as 'significant risks' and are reported in the Corporate Risk Register. This is reviewed monthly by the ELT and at each meeting of the R&CSC.

We define strategic risks as those which are foreseeable, but not with sufficient clarity to be assessed within the corporate risk model. These are captured in a Strategic Risk Register and a sub-group of the Board reviews these strategic risks annually, most recently in December 2020.

Principal Risks and Uncertainties

The R&CSC, on behalf of the Board, carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, taking account of both the highest rated risks on our Corporate Risk Register and the Strategic Risk Register identified by the Sub-committee.

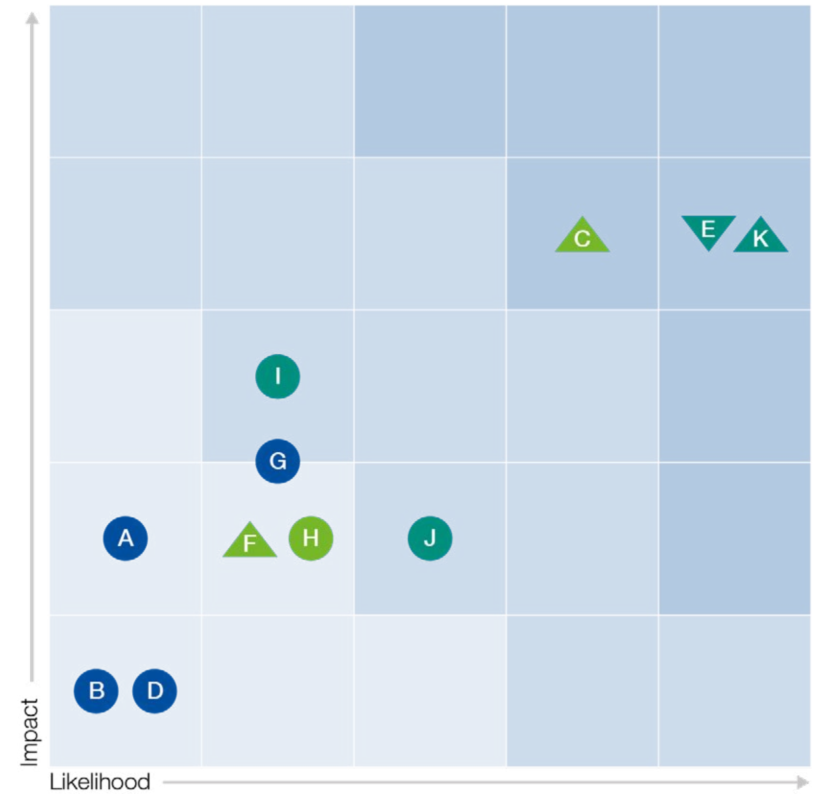
The conclusions of this assessment are summarised on the heat map on the next page. This shows the current exposure of each of the principal risks and an indication of whether the risk is increasing, stable or reducing. The table on **pages 57 to 60** then describes each of the principal risks in more detail, along with our approach to mitigating these risks. The risks are not set out in order of priority. These principal risks have also been considered in our assessment of financial resilience, as set out in our viability statement on **pages 104 to 106**.

Changes to Principal Risks

There have been no changes to the Principal Risks identified by the Board. The diagram below displays whether each principal risk is increasing, reducing or staying the same.

A. Health and safety
B. Customer trust and confidence
C. Water service failure
D. Wastewater service failure
E. Impact of pandemic
F. Cyber security / information management
G. Effect of climate change
H. Regulatory and political changes
I. Funding and liquidity
J. Pension contributions
K. Financial performance

Operational | Risk increasing
Financial | Risk stable
Compliance | Risk decreasing



Brexit risk

The Company identified, monitored and mitigated the risks to the business resulting from the UK leaving the European Union (EU) without a trade agreement, but did not consider it to be a principal risk. Whilst NWL operates entirely within the UK, we are conscious that some of our supply chain does rely on transportation from Europe and we manage this risk on an ongoing basis to ensure continuity of service.

Emerging Risk – Plastics Pollution

There is increasing public attention on the world-wide problem of plastic waste and more specifically on single-use plastics and micro plastic pollution. The potential impact on public health and ecosystems is a growing public concern and has been high on the agenda of stakeholder expectations for some time. In the coming years, we anticipate that the water industry may have an increasing involvement in this issue with regards to understanding how this material gets into the water environment.

Operational risks

Description of risk	Mitigation	Change from prior year
Health & safety The nature of our operational and construction workplaces means that there is a significant inherent risk to the health and safety of our staff and supply chain of which we are acutely conscious. Our workplaces are healthy and safe.	The health and safety of our staff, contractors and members of the public is our highest priority. Health and safety matters are given a high priority at all meetings of our ELT and Board. Long-term planning and targets are set to drive continuous improvement. This is underpinned by our focus on improving behavioural safety and creating a great safety culture. Our health and safety management system defines clear arrangements and responsibilities throughout the Company. This is supported by a programme of leader safety visits, compliance audits, training and safety awareness tools such as 60 second checks and spot-its.	No change (focus on continuous improvement).
Customer trust and confidence Our customers are at the heart of everything we do and failure to deliver a consistently unrivalled customer experience or negative media coverage resulting in a poor public perception of our reputation could damage our customers' trust and confidence in our business. Our customers tell us we provide excellent customer service and resolve issues quickly. Our customers say we are a company they trust. Our customers say our services are good value for money and we work hard to keep water and wastewater services affordable for all.	Our unrivalled customer experience strategy was co-created with our customers so that we could understand what was really important to them and we engaged with over 400,000 of our customers to help shape our Business Plan for 2020-25. We have invested in significant improvements in our customer facing systems and the digital experience we offer to our customers, and continue to invest in our people using the six pillars of experience excellence model. We continue to improve our support for customers in vulnerable circumstances, through our Inclusivity Strategy, StepChange partnership and new affordability tariffs. We plan to take this further through our commitment to eradicate water poverty across our supply areas.	No change (focus on continuous improvement against a background of increasing customer expectations).
Water service failure A problem in our water system could cause either a major loss of supply or for unfit water to be supplied. This could have many potential causes, including the failure of a strategic water main or treatment works, loss of power supply or contamination of a service reservoir. We always provide a reliable supply of water. Our drinking water is clean, clear and tastes good.	We are ISO 55001 (Asset Management) certified on a company-wide basis, and follow best practice in the long-term management of our assets with outcome-based strategic planning. We monitor the effectiveness of our asset management through a number of asset health measures. We have well developed business continuity plans in place for managing incidents, down to a site-specific level. These are regularly tested. We restrict access to our treated water network through authorisation and physical security measures.	Increasing risk around water quality performance and DWI transformation plan.

Description of risk	Mitigation	Change from prior year
Wastewater service failure A problem in our wastewater system could cause either significant environmental pollution or flooding of customer properties. This could have many potential causes, including insufficient network capacity to cope with severe weather events, misconnected properties and the consequences of sewer blockages or collapses. Our sewerage service deals with sewage and heavy rainfall effectively.	We are ISO 55001 (Asset Management) certified on a company-wide basis, and follow best practice in the long-term management of our assets with outcome-based strategic planning. We monitor the effectiveness of our asset management through a number of asset health measures. We continue to invest heavily in preventing pollution and sewer flooding and have a pollution management programme with multiple workstreams to tackle the root causes. We engage with our customers and local communities through initiatives such as 'Love Your Drain' and Water Rangers and working with partners to deliver SuDS. We are also investing significantly in proactive maintenance and cleaning of the network, real time monitoring and analysis, flooding mitigation and investment to increase network capacity.	No change.
Impact of pandemic Unavailability of staff due to a pandemic outbreak. This could result in a significant impact on a number of business areas with operational and customer service consequences. Extended lockdown or social distancing measures impacting on our customers and ability to function normally. Financial impacts include reduced revenue, increased operating costs, impacts on delivery of capital investment and potential impacts on PCs. Our customers tell us we provide excellent customer service and resolve issues quickly. We are resilient and provide clean drinking water and effective sewerage services; now, and for future generations.	Our response to the COVID-19 pandemic has demonstrated that our business is resilient and we can continue to deliver essential services even under strict lockdown conditions. We have well developed business continuity plans in place which have been updated through the pandemic. We have been able to quickly enable large parts of our customer and support service teams to work remotely from home, as well as maintaining operational activities, taking account of COVID-19 risk assessments and with appropriate adjustments.	Immediate impacts reducing but the risk of recurrence in future remains.
Effect of climate change In the short term, climate change may cause more volatile weather conditions which could impact on customer service through disrupting water supply or causing sewer flooding. Over the longer term, climate change could impact on water resources resilience and the integrity of our assets. This may be exacerbated by growing population and ongoing urbanisation. We are resilient and provide clean drinking water and effective sewerage services; now, and for future generations. We take care to protect and improve the environment in everything we do, leading by example.	Our approach to mitigating short-term risks of service failures on our water and wastewater businesses are set out in the risks above. We consider the longer-term impacts of climate change in our long-term planning, such as our Water Resource Management Plan, and identify long term solutions to future potential resilience issues well in advance. Our Resilience Framework provides a structure for us to achieve resilience in the round by taking an integrated and systematic approach to understanding risk and resilience challenges across all of our business areas and how they interact.	Increasing over the long term.

Compliance risks

Description of risk	Mitigation	Change from prior year
Cyber security Key business systems could be lost as a result of a malicious attack or failure of cyber security. Sensitive data could be released in breach of the Data Protection Act, General Data Protection Regulation (GDPR) or Environmental Information Regulations (EIR). May not comply with obligations under the Networks & Information Systems Directive. Our customers say we are a company they trust.	Our Information Security policy sets out our commitment to the continuous improvement of information security controls and culture throughout the business. This is delivered through software and hardware access controls, additional web-based security and clear policies and procedures and user awareness. We are implementing our enhanced cyber resilience strategy in AMP7, including 24/7 monitoring, enhanced anomaly detection, privilege management and next generation security tools. Data is protected through access controls, laptop encryption and awareness briefings. A ten-point data protection action plan has been developed to further mitigate the risks.	Increasing risk over time.
Regulatory and political changes Changes to the Licence or regulatory methodology could impact adversely on the balance of risk and return or reduce investor confidence in the stability and predictability of the regulatory framework. A change in future government could introduce significant changes in policy. Our finances are sound, stable and achieve a fair balance between customers and investors.	Externally driven, but we continue to engage with Ofwat on its strategic objectives and the development of the approach for the next price review. We continue to engage with all political stakeholders, both directly and through Water UK, to ensure that any debate is well-informed.	Stabilised following completion of CMA redetermination.

Financial risks

Description of risk	Mitigation	Change from prior year
Funding and liquidity risk A key funding risk would be an inability to access future funding at acceptable rates due to market uncertainty. Future borrowing costs could increase as a result of a credit rating downgrade. Liquidity risk could arise due to breaching financial covenants on committed facilities. Our finances are sound, stable and achieve a fair balance between customers and investors.	The Board has approved treasury policies which set out how we manage treasury risks (see **page 54**). Our five-year plans identify future borrowing requirements and we plan our financing strategy accordingly over this time horizon. This is supported by £450m of standby committed borrowing facilities, which was fully undrawn at 31 March 2021, and we maintain substantial headroom in the financial covenants for these facilities. We are committed to maintaining our investment grade credit ratings and manage our financial plans accordingly. Our viability statement on **pages 104 to 106** reports on the financial resilience of our plan over a nine year time horizon.	Risk remains heightened due to uncertainty in financial markets around COVID-19 recovery.
Pensions Risk of increased pension deficit at the next actuarial valuation of our defined benefit pension scheme (at 31 December 2022) as a result of market conditions. Risk of increased employer contributions, for either ongoing service obligations or to repair the pension deficit. Our finances are sound, stable and achieve a fair balance between customers and investors.	We have concluded the actuarial valuation of our defined benefit pension scheme as at 31 December 2019 and agreed a schedule of contributions. Our employer covenant remains strong, reflecting the long-term nature of our business and 25 year rolling term of our Licence.	Immediate risks addressed by actuarial valuation but longer-term risk remains.
Financial performance A failure to deliver our financial plans could impact on expected shareholder returns. This could result from significant adverse movements on costs, interest or tax or a failure to deliver efficiency commitments. A sustained period of low inflation could depress RCV, increasing gearing. Our finances are sound, stable and achieve a fair balance between customers and investors.	We are implementing a range of efficiency actions for both operating and capital expenditure and progress is reported monthly to ELT. We maintain more than 50% of our borrowings on fixed rates, providing certainty. Our viability statement on **pages 104 to 106** reports on the financial resilience of our plan over a nine-year time horizon.	Conclusion of CMA redetermination has provided certainty but settlement remains very challenging.

Approved by the Board and signed on its behalf:

H Mott

H Mottram CEO
15 July 2021

Governance Report

Chairman's Introduction

NWL has a very important role in the lives and wellbeing of its customers and the board recognises that it is a privilege to be entrusted to provide essential public services to millions of customers. As well as having key environmental responsibilities, we are a significant employer and buyer of goods and services.

The NWL Board understands and accepts its responsibilities and has listened carefully to the views of our many stakeholders throughout the preparation of Our Plan. As I explain in my statement at page 4, the Company asked Ofwat to refer its FD of the 2019 Price Review to the CMA for a redetermination and the CMA's FD was published on 17 March 2021. The Board remains fully committed to ensuring that NWL continues to provide excellent customer service and remains ethical and fair in its relationship with all stakeholders.

In 2019 Ofwat prescribed four new objectives (the 2019 Objectives) which it expects us to meet. These are set out on pages 72 to 78 below, where we have also explained how we meet them.

The Board agreed last year that it would also be appropriate to report compliance with the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles), and that our standards of corporate governance should remain at least as high as in previous years and higher wherever appropriate.

As a private company with NWL's ownership structure, we believe it is consistent with good corporate governance for there to be significant shareholder representation on the Board, including the Chairmanship. We also accept that there needs to be an appropriate balance. As I explain at page 5, we have taken the opportunity to refresh the Board this year. By mid-July we will have five newly appointed INEDs working alongside our Senior INED, Paul Rew, and four further NEDs (including me as Chairman), which will make INEDs the largest single group on the Board, even after Paul stands down as he plans to do in November.

The INEDs play a very significant role in the functioning of the Company and are instrumental in all aspects of the Board's work, taking a leading role on the various Committees, which the Board relies on. The Committees are effectively led by the INEDs (within agreed parameters) and handle a very significant volume of important work and present options and proposals to the Board.

The five incoming INEDs are highly experienced, capable and independently minded people with a diverse range of relevant experience and talents. Working with the other NEDs, they will scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. We believe our current governance arrangements, with strong INED leadership, ensure that there is always sufficient independent membership and judgement on the Board, further supporting the Board and its Committees in making high quality decisions that address diverse customer and stakeholder needs.

As I explained in last year's report, the Board functions as an integrated whole. All Directors have the same legal responsibilities and each Director understands his or her individual responsibility to act in the best interests of the Company, as well as the importance of the service provided to our customers and our environmental responsibilities.

All Directors play a full part in Board meetings and shape the Company's strategy, as well as ensuring that customers' interests are fully considered in any investment and operational decisions. The composition of the Board ensures a sound balance of experience, knowledge and independence and that decision making is not dominated by any single group.

Paul Rew, our Senior INED, sets out in his report (on **pages 64 to 65**) how the INEDs are fully involved in all the main aspects of NWL's governance and, throughout the year, were invited to, and participated in, all the Board meetings of our holding company, NWGL (except in relation to NHH retail business).

In practice, the Company complies with the 2019 Ofwat Objectives and, with very few exceptions, the supporting Provisions. The effective arrangements, which the Board and its Committees have in place to ensure such compliance, are explained in some detail below in the Corporate Governance Report (on **pages 66 to 86**).

I am pleased to report that our recent Board evaluation exercise delivered very positive feedback on how the Board operates. We again engaged Professor Giovanna Michelon (a specialist in corporate governance and social responsibility) to facilitate the exercise and her report concludes that despite the challenge presented by the pandemic, the Board has remained highly effective and has continued to make high quality decisions.
These findings are consistent with my own view of how well the Board works, on behalf of all the Company's stakeholders.

A J Hunter
Chairman

Senior Independent Non-Executive Director's Report

As Senior Independent Non-Executive Director (SINED) I am pleased to be able to describe the continuing role of NWL's INEDs, and the key role played by the INEDs in the Board Committees and Sub-committee.

I am happy to endorse the Chairman's explanation of the key role which the INEDs continue to play in NWL's governance, assurance and decision making. I chair the Audit Committee (AC), the R&CSC and the CMA Board Sub-group and I chaired the PR19 Board Sub-group, which I explain below. Fellow INEDs sit on all these bodies, as well as on the Remuneration and Nomination Committees. INEDs are in the majority on the AC, the R&CSC, the Remuneration Committee and the Nomination Committee.

We are therefore fully involved in all the main aspects of NWL's governance and the Board is satisfied that this enables it to ensure that sound governance is maintained. That involvement has been undiminished in the last year despite the pandemic, albeit meetings have been virtual rather than physical.

In my recent reports I have explained the role of the PR19 Board Sub-group, which provided integrated support to the Board as a whole in driving forward and assuring preparation of our Plan. The PR19 Board Sub-group was fully involved in all aspects of the development of our Plan and all members reviewed and challenged both the overall strategy and the detailed submissions. On the ground, INEDs were involved in customer focus groups, meetings of the Water Forum and other stakeholder groups.

As the Chairman explains in his statement (at **page 4**), the Board did not consider that Ofwat's FD for 2020–25 adequately reflected the clear guidance provided by our customers and other stakeholders. This manifested in the disallowance by Ofwat of schemes to enhance water supply resilience and reduce sewer flooding. Moreover, the overall package did not, in the Board's opinion, put the Company on a sustainable footing to meet the very stretching targets set by Ofwat in an increasingly challenging operating environment.

The Board therefore agreed, unanimously, to ask Ofwat to refer the FD to the CMA for redetermination. In order to support the Board in managing the CMA referral, the Board established the CMA Board Sub-group, which I chaired and which included all the INEDs, the Executive Directors and professional advisers. The referral required a considerable amount of work, including meetings nearly every week for over a year and the review of many long, detailed, technical, economic and legal submissions. The INEDs played a key role in this work through their active involvement in the Sub-group, which developed the Company's Statement of Case for approval by the Board and also managed the day-to-day conduct of the referral. The Chairman summarises the outcome in his statement (at **page 4**).

Although the INEDs are not members of the NWGL Board, we have again been present at its Board meetings this year, which has continued to encourage a cohesive approach at both Boards and given us full transparency. However, in order to maintain proper governance in relation to the NHH market (the "level playing field") we have not received papers relating to the NHH retail market or been present when that has been under discussion.

The INEDs have again all taken part in extensive sessions with management on business risk and customer service, have met from time to time without management or the other Directors being present (with and without the Company's auditors) and attended the limited number of other events relating to the water sector. Beyond the formal work of the Board and its various committees, we have also continued to develop a broader insight into the work of the Company through other meetings and events, although the scope for these has been reduced over the last year by the impacts of the pandemic.

In conclusion, I and the other INEDs believe that the Board and Committees have always had sufficient independent membership, and this will be enhanced by the appointment of five new INEDs this year. I have been fully involved in the recruitment of the new INEDs, working with the Nomination Committee on which INEDs are in the majority, and a leading firm of recruitment consultants. I am delighted that we have been able to attract candidates of such high quality and I have no doubt that they will all make very valuable contributions to the success of the Company. I am confident that the new team of INEDs will, through their leading role in the Committees, continue to exert significant influence in setting the direction which the Board takes in all key areas of strategy and business planning, monitoring, governance and reporting.

P Rew
Senior Independent Non-Executive Director

Corporate Governance

Board Membership

A J Hunter (Non-Executive Chairman) joined the Board in October 2011. Mr Hunter is Deputy Managing Director of CKI, which is listed on The Hong Kong Stock Exchange and is a substantial shareholder in the Group. Mr Hunter is an Executive Director of Power Assets Holdings Limited, a listed company. He has been an Executive Director of CKI since December 2006 and Deputy Managing Director since May 2010. Mr Hunter acted as the Chief Operating Officer of CKI from December 2006 to May 2010. Prior to his appointment to the board of Power Assets Holdings Limited in 1999, Mr Hunter was Finance Director of the Hutchison Property Group. He holds a Master of Arts degree, a Master's degree in Business Administration and is a member of the Institute of Chartered Accountants of Scotland and of the Hong Kong Institute of Certified Public Accountants. Mr Hunter chairs the Remuneration and Nomination Committees.

Key strengths: Leadership, strategic overview, finance and infrastructure.

A Bryce (Independent Non-Executive Director) joined the Board in April 2021. Mr Bryce was, until 2009, Managing Director of ScottishPower Energy Networks, and before that Managing Director of ScottishPower Generation. He is a Non-Executive Director of Northern Ireland Electricity Networks and of Jersey Electricity plc. He was formerly a Non-Executive director of Scottish Water until 2018, Infinis Energy plc, and Chair of Viking Energy Shetland. As an advisor in the utilities industry, Mr Bryce served on Ofgem's Network Innovation Competition Expert Panel and the RIIO-2 Customer Challenge Group. He is a member of the AC, R&CSC and Remuneration and Nomination Committees and will have a special focus on the Company's workforce and culture and its activities in the North East of England.

Key strengths: Utilities, engineering and asset management and strategy.

L S Chan (Non-Executive Director) joined the Board in 2016, having been appointed by CKH, and has been an Executive Director of CKI since January 2011 and Chief Financial Officer of CKI since January 2006. Mr Chan joined Hutchison Whampoa Limited, which is a substantial shareholder of CKI, in January 1992 and has been with the Cheung Kong Group since May 1994. Mr Chan is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants and also a member of the Institute of Certified Management Accountants (Australia). He is a member of the AC.

Key strengths: Finance, infrastructure and corporate overview.

M Fay (former Independent Non-Executive Director) joined the Board in 2010. Ms Fay was Managing Director of Tyne Tees Television until December 2003 when she became Chair of One North East, a position she held until August 2010, and was Deputy Chair of The Sage Gateshead until March 2018. Ms Fay was Deputy Chair of Governors of the University of Sunderland until 2020 whereupon she joined its Development Trust. She is Chair of South Tyneside Council's Economic Regeneration Board, Chair of the Customs House South Shields and a Non-Executive Director of the Tyne and Wear Passenger Transport Executive (which trades as 'Nexus'). Ms Fay was awarded a CBE in 2010 for services to regional development and is a Deputy Lieutenant for Tyne and Wear. She was a member of the CMA Board Sub-group, Remuneration and Nomination Committees. Ms Fay, who had a special focus on the Company's workforce and culture, retired from the Board on 31 May 2021.

Key strengths: Corporate overview and customer service.

H L Kam (Non-Executive Director) joined the Board in October 2011, having been appointed by Cheung Kong (Holdings) Limited (CKH), a wholly-owned subsidiary of CK Hutchison Holdings Limited of which he is the Deputy Managing Director. Mr Kam is also Group Managing Director of CKI, a position he has held since its incorporation in May 1996. He is the Deputy Managing Director of CK Asset Holdings Ltd., President of CK Life Sciences Int'l. (Holdings) Inc., as well as Chairman of Hui Xian Asset Management Limited, which manages Hui Xian Real Estate Investment Trust, a listed real estate investment trust. Mr Kam holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration.

Key strengths: Leadership, strategic overview, finance and infrastructure.

Dr S Lyster (former Independent Non-Executive Director) joined the Board in 2006. A lawyer by training, Dr Lyster qualified in both the UK and the USA and is the author of the leading legal textbook on international wildlife law. Dr Lyster was Chief Executive of LEAD International from 2005 to 2011. Before joining LEAD, he was Director General of The Wildlife Trusts and previously worked for World Wildlife Fund for nine years, where he was responsible for its global policy work on international conventions. He is Chairman of Conservation International-UK, a Trustee of Kilverstone Wildlife Conservation Trust and the Rural Community Council of Essex, and a Council member of World Land Trust. In July 2014, Dr Lyster was appointed to the Board of Natural England and, in 2020, was appointed a member of Essex County Council's Climate Action Commission. He is a Deputy Lieutenant for the County of Essex. Dr Lyster was a member of the CMA Board Sub-group, AC, Remuneration Committee, Nomination Committee and R&CSC. Dr Lyster, who had a special focus on environmental matters, retired from the Board on 31 May 2021.

Key strengths: Conservation, the environment and law.

D N Macrae (Non-Executive Director) joined the Board in October 2011, and represents CK Infrastructure Holdings Limited, where he holds the position of Head of International Business. Mr Macrae has many years' experience in the infrastructure investment field and holds a Bachelor's and a Master's degree in Philosophy, Politics & Economics. He is a member of the Remuneration Committee and Nomination Committee.

Key strengths: Finance, infrastructure and corporate overview.

Prof J McGlade (Independent Non-Executive Director) joined the Board in July 2021. A natural scientist (aquatic sciences, biochemistry, ichthyology, informatics and soil science) by training, Prof McGlade is qualified in both the UK and Canada and is recognised globally as a leading researcher in the fields of ecosystem and human health, climate change, natural capital and dynamical systems modelling. Prof McGlade is currently at University College London and Strathmore Business School. Prior to this, she was appointed as UN Environment Chief Scientist and Global Director of Science 2013-2017 and Executive Director of the European Environment Agency 2003-2013, where she was responsible for 32 EU, EEA and Associate member states' data, reporting and assessment on the environment and major sectors. Earlier posts include Director of UK Natural Environment Research Council Centre for Coastal and Marine Science, Professor at Warwick University, and Director Ecosystems Modelling Institute German Federal Government, and Senior Research Scientist Federal Government of Canada. Prof McGlade was a Board Member of the Environment Agency England and Wales from 1998-2003, and in 2020 was appointed a member of Essex County Council's Climate Action Commission. She is a member of the AC and R&CSC and will have a special focus on the Company's environmental performance and its activities in Essex and Suffolk.

Key strengths: Water and climate sciences, environmental technologies and R&D, conservation and environmental policy.

H Mottram (CEO) joined the Board in 2010, when she was appointed as CEO of NWL and NWGL. Ms Mottram is a Non-Executive Director of Centrica plc, Vice-Chair of the North East Local Enterprise Partnership, a member of the CBI Board and Vice-Chair of Newcastle University Council. Ms Mottram was named North East Business Executive of the Year in 2017 recognising her significant contribution to business in the North East of England. She was awarded an OBE in 2010 for services to the rail industry and a CBE in 2018 for services to the water industry and business community.

Key strengths: Leadership, corporate overview, infrastructure and customer service.

M A B Nègre (Independent Non-Executive Director) joined the Board in 2006. Mr Nègre was, between April 2000 and April 2001, the CEO of the former Northumbrian Water Group plc and the chief corporate representative of its parent company, Suez, in the UK. Mr Nègre was a founding Director of NWGL when it acquired the Group from Suez SA in 2003 and listed it on the London Stock Exchange (LSE). He currently chairs Ecofin Vista Hedge Fund and Ecofin Global Renewable and Infrastructure Fund and is a Non-Executive Director of LSE-listed Investment Trust EGL plc. Mr Nègre is a member of the CMA Board Sub-group, AC and R&CSC. Mr Nègre will retire from the Board on 31 July 2021.

Key strengths: Strategy, utilities and infrastructure.

P Rew (Senior Independent Non-Executive Director) joined the Board in 2010. Mr Rew is a Chartered Accountant and was a partner in PricewaterhouseCoopers LLP (PwC) from 1987 until 2010, where he was lead partner for a diverse range of FTSE 100 clients and for PwC's UK energy, utilities and mining sector practice. Mr Rew was formerly a Non-Executive Director of the Met Office, Defra and the Care Quality Commission. He chairs the AC, R&CSC and the CMA Board Sub-group, and chaired the PR19 Board Sub-group. He is also a member of the Remuneration and Nomination Committees.

Key strengths: Finance, risk and corporate governance.

B C Rosewell (Independent Non-Executive Director) joined the Board in April 2021. Ms Rosewell is an economist by background, with a track record in advising public and private sector clients on key strategic issues. She is a Commissioner for the National Infrastructure Commission in the UK, Chair of Atom Bank and of the M6 Toll Company and a founder and Senior Adviser of Volterra Partners. Ms Rosewell has been Senior Independent Director for Network Rail, Chair of Risk for Ulster Bank and Chief Economic Adviser to the Greater London Authority. Ms Rosewell was appointed CBE in December 2018 and is also a Fellow of the Institution of Civil Engineers, the Academy of Social Science and the Society of Professional Economists. She writes on finance, risk and uncertainty as well as infrastructure and modelling validation. Ms Rosewell is a member of the AC, R&CSC and Remuneration and Nomination Committees and will have a special focus on the Company's activities in the North East of England.

Key strengths: Strategic leadership, economics, risk and infrastructure

R G Sexton (Independent Non-Executive Director) joined the Board in April 2021. Mr Sexton is a Fellow of the Institute of Chartered Accountants and was a partner in PricewaterhouseCoopers LLP (PwC) from 1992 until 2018, where he was lead partner on a diverse range of FTSE 100 and Fortune 500 clients. He also held a number of senior management roles in PwC including Vice Chairman, Global Assurance from 2013 to 2018. Mr Sexton became Co-Chair of the Value Reporting Foundation in June 2021 and was a Non-Executive Director of the International Integrated Reporting Council until June 2021.
He is a member of the AC and R&CSC and will have a special focus on the Company's activities in Essex and Suffolk.
Key strengths: Finance, risk and corporate governance.

P Vicary-Smith (Independent Non-Executive Director) joined the Board in July 2021. Mr Vicary-Smith was for 14 years the Chief Executive of the consumer organisation Which?. Prior to that his background was in marketing, and included roles as a strategy consultant at McKinsey, leading fundraising for Oxfam, and as Commercial Director at Cancer Research UK. He is Chair of Oxford Brookes University and advises both established companies and digital start-ups on engaging with their customers and putting their customers' needs front and centre of decision-making.
Mr Vicary-Smith is a member of the Institute of Chartered Accountants of England and Wales' Corporate Governance Committee. He is a member of the AC, R&CSC and Remuneration and Nomination Committees and will have a special focus on the Company's customers.
Key strengths: Customer engagement, strategy and corporate governance.

Members of the Board and attendance at Board meetings

There were five scheduled meetings during the year ended 31 March 2021 and one shorter additional meeting. The Board considered this sufficient to enable it to discharge its duties effectively, and will meet out of the agreed cycle for time-critical matters or significant matters that arise as necessary.

Membership of the Board and attendance at the five scheduled meetings during the year were as follows (except as stated the Directors served for the whole of the year ended 31 March 2021):

Name	Attendance
A J Hunter	5
L S Chan	5
M Fay (retired 31 May 2021)	5
C I Johns (resigned 30 May 2020)	1
A C Jones (retired 23 October 2020)	2
H L Kam	4
Dr S Lyster (retired 31 May 2021)	5
D N Macrae	5
H Mottram	5
M A B Nègre	5
P Rew	5

Attendance at the one additional Board meeting held during the year was as follows:

Name	Attendance
A J Hunter	1
L S Chan	1
M Fay	1
A C Jones	1
H L Kam	-
Dr S Lyster	1
D N Macrae	1
H Mottram	1
M A B Nègre	1
P Rew	1

Corporate Governance Statement

The Boards of the Company and its holding company, NWGL, are committed to high standards of corporate governance. Ofwat has now embedded the 2019 Ofwat Objectives in the Company's Licence, to ensure that governance is sound and that the Company's Directors, acting as such, act independently of parent companies.

The arrangements and functioning of the Board, its Committees, Sub-committee and Sub-groups adhere to the Wates Principles and the 2019 Ofwat Objectives, with the latter being subject to the minor exceptions explained below. As set out above, during the year ended 31 March 2021 there were four INEDs, a further four NEDs, including the Chairman, and three Executive Directors (reducing to one after C I Johns and A C Jones stood down). By the end of July 2021 there will be six INEDs, including five new appointees. Paul Rew will step down from the Board in November and the Board will move forward with five INEDs, who will be the largest single group on the Board.

The Chairman ensures that the Board works in a collegiate way, in the best interests of the Company and its stakeholders, and that each Director has an equal voice. All members of the Board are content that the balance of the Board is appropriate, but welcome the decision to increase the number of INEDs during 2021. The Directors have all been able to allocate sufficient time to the Company to discharge their responsibilities effectively.

As the Chairman says in his introduction (on **pages 62 to 63**), the INEDs, within agreed parameters, effectively lead the work of the Committees, which hold very full meetings with considerable workloads, to prepare the ground for the Board.

There is a clear division of responsibilities between the Chairman and CEO. This has been set out in writing and agreed by the Board.

The Company has put in place Directors' and Officers' insurance cover for the benefit of all Directors of the Company. In addition, NWGL entered into a Deed of Indemnity on 21 March 2017 to provide Directors of NWGL and its subsidiaries further protection against potential liability.

Board Leadership, Transparency and Governance

The 2019 Ofwat objectives (and supporting provisions)

We explain below how we meet the Objectives and supporting Provisions on board leadership, transparency and governance as published by Ofwat in January 2019.

Objective 1
The Board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Our comments below on compliance with the relevant supporting Provisions explain how the Company meets this Objective:

(i) *The Board develops and promotes the Company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.*

The updated Our Purpose statement (set out on page 12) has been informed by a very extensive research and consultation exercise (supported by Business in the Community) and a number of workshops. The enhanced statement captures how we care for the essential needs of our communities and the environment, now and in the future, and the positive difference we make by investing over the long term to create a sustainable and resilient business.

There is a comprehensive and continuous programme of engagement with customers and full details are set out in the Company's APR.

This open and consultative culture is a key element of how the Company does business. It is also maintained through a very broad programme of engagement, including regular engagement at Chief Executive level with local authorities across our operating areas, and participation in regional and national business organisations. The Company also hosts site visits by MPs, civil servants, and senior regulators to encourage open and transparent debate about the challenges faced by the sector and to enable the Company to understand their respective concerns and priorities.

This programme of engagement will be re-invigorated as and when the lockdown eases.

(ii) *The Board makes sure that the Company's strategy, values and culture are consistent with its purpose.*

The Board has reviewed and discussed the Company's strategy, values and culture and is satisfied that these are consistent with the enhanced purpose. The Board recognises that the Company's strategy needs to reflect the purpose, as well as customers' long-term priorities and to take account of Ofwat's emphasis on public value. The Our Purpose statement is therefore underpinned by key principles which demonstrate that NWL:

- provides a reliable, resilient, safe and high-quality water and wastewater service for all;
- intends to leave the environment in a better condition for the next generation;
- is committed to keeping water affordable including for those on low incomes; and
- acts in the long-term interests of society and the environment while still providing the very best service for customers today.

(iii) *The Board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the Company's purpose. Where it finds misalignment it takes corrective action.*

(a) The Board has received and discussed detailed feedback on an extensive employee engagement survey conducted by "Best Companies". This provided a comprehensive insight into the alignment of behaviour throughout the business with the purpose. The survey findings were very positive, but there are always areas where there is scope to improve engagement. Line managers are again being supported to develop action plans to further improve engagement and ensure alignment of behaviour with the purpose. Engagement will be re-assessed later in the year to measure the improvement achieved and identify any further steps required.

(b) Although the entire Board will engage closely with the workforce, it has designated one of the INEDs, Alan Bryce, to have a special focus on our people and the culture of the business. This role was previously performed by Margaret Fay, who fed back to the Board on her experience of employee roadshows and other sessions with employees.
(c) The Human Resources team keeps Company policies and procedures under review to ensure that these properly reflect the Company purpose and to embed it where this is appropriate.

(iv) *Annual reporting explains the Board's activities and any corrective action taken. It also includes an annual statement from the Board focusing on how the Company has set its aspirations and performed for all those it serves.*

The Board receives detailed reports from the Executive Directors in advance of Board meetings, covering each aspect of the Company's activities.

The Chairman leads the Board and ensures that all items on the Board agendas are discussed openly and that all Directors have an opportunity to express their views. He encourages constructive challenge, so that ideas and proposals are tested and explored fully. The Board recognises that customers' interests are best served when the Company is flexible and innovative, so the ELT is always encouraged to think laterally and consider a range of solutions for each issue.

The Board makes key strategic decisions, approves the annual budget and notes the medium-term business plans. It also approves key regulatory submissions and very significant investments or expenditure which is not in the normal course of business. Investments which form part of projects within approved business plans are authorised by the Committees below Board level. Although this formal framework is very effective, the ELT takes great care to ensure that matters which relate to the quality of the Company's services to customers, leakage, water quality and environmental performance are discussed fully by the Board. The Standing or Executive Committees can take decisions not delegated to specific committees between Board meetings. All Directors receive notice of Standing Committee meetings and may participate if they wish. Decisions taken by the Standing or Executive Committees are reported at the next Board meeting. The Company's Board meets at least five times each year.

During the year, the Board received regular detailed updates from the Executive Directors on each aspect of the Company's work. There are also regular reports on each Board agenda on customer service, operational performance, health and safety, management of key business risks, the investment programme and regulatory matters. There is a strong focus on the Company's success in delivering its key outcomes, as explained in the Strategic Report. The Chairman of the AC, R&CSC and Sub-groups reports fully to the Board on their work. In addition, the following significant matters were considered by the Board, as a matter of sound governance:

(a) the Annual Report and Financial Statements;
(b) the annual business plan;
(c) data security;
(d) decisions on tariffs;
(e) approval of several significant capital projects;
(f) review of performance commitment targets and related investment priorities; and
(g) matters relating to PR19, including addressing Ofwat's Initial Assessment of Plans, the Draft Determination and FD and the decision to ask Ofwat to refer the FD to the CMA for redetermination.

A Board statement as detailed above is included in NWL's APR for the year ended 31 March 2021.

Objective 2
The Appointee has an effective Board with full responsibility for all aspects of the Appointee's business for the long term.

NWL clearly meets this Objective. The Board sets, implements and supports the Company's vision, values, standards and strategy and ensures compliance with policies and legal and regulatory obligations. We comment below on compliance with the relevant objectives:

(i) *The regulated company sets out any matters that are reserved to shareholders or parent companies (where applicable) and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.*

Although proper regard is given to the interests of shareholders, in accordance with company law, NWL's Board has full responsibility for all aspects of the Company's business, including the freedom to set, and accountability for, all aspects of NWL's strategy. This is evidenced by the fact that the PR19 Business Plan was developed and approved entirely by the NWL Board, which also made the decision to refer Ofwat's PR19 FD to the CMA.

The Company has adopted terms of reference which set out the matters reserved to the Board for approval and matters which are, or can be, delegated to the Committees, Sub-committee, Sub-groups and management. These are published on the Company's website.

The Company has also adopted financial approval rules which set out the authorisation processes and financial limits to be applied to financial transactions within the Company. The terms of reference and financial approval rules are reviewed periodically by the Board.

Although certain limited matters (such as extensions of directors' appointments, large contract awards and significant borrowing arrangements) are referred to the NWGL Board, this is regarded as a formality.

The NWGL Board accepts that the NWL Board is required to have full responsibility for all aspects of the regulated company's business and, to that end, has never rejected a recommendation of the NWL Board.

(ii) *Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.*

All the NWL Board Committees report into the NWL Board and final decisions are made at that level.

(iii) *The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.*

The Board is absolutely focused on the sustainable, long-term success of NWL. Any conflicts of interest are declared and Directors do not speak or vote on matters where a potential conflict arises.

It is a key principle of the Cheung Kong group of companies that the boards of companies within the group manage their own affairs. Whilst support and assistance is provided when asked for, it is recognised that local management have hands-on knowledge of the operational business and of customers' needs and priorities. The non-NWL interests of the shareholders are, therefore, never a factor in decision-making at the NWL Board and this approach is regularly re-affirmed by the NEDs in the clearest possible terms.

Objective 3
The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.

Our comments below on the relevant supporting provisions explain how the Company meets this Objective. The provisions require publication of the following in a clear and accessible manner:

(i) *An explanation of group structure.*

This is provided at page 51.

(ii) *An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees).*

The dividend policy, and how the policy has been applied in the year, is explained in note 8 to the Financial Statements.

(iii) *An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed.*

The Board has ultimate responsibility for risk management and determines appropriate risk appetite. The Board's view of acceptable risk is based on a balanced assessment of all the risks in the operating environment and aims to ensure an appropriate balance between risk aversion and opportunities. The Board monitors the management of risks and approves major decisions affecting the Company's risk profile. The Board is supported in this by the R&CSC, from which it receives regular and detailed reports.

The Board requires management to identify and assess the impact of risks to the business using a corporate risk model. In addition, during the year, a Sub-group of the Board carried out a review of strategic risks, which are potentially high-impact risks which are foreseeable but with a high degree of uncertainty.

An explanation of principal risks, and our approach to mitigating these risks, is provided on pages 55 to 60.

(iv) *Details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast.*

Details of Board and Committee membership and meetings and attendance is set out at pages 66 to 70. No votes were held at any relevant meeting and all decisions were reached by consensus.

(v) *An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.*

A detailed explanation of the Company's executive pay policy is provided in the Remuneration Committee Report on pages 87 to 99, including how the criteria for the short-term incentive plan have significant linkage to benefits for our customers and the wider environment. The Remuneration Committee Report also explains changes which took effect from 2020 to further increase the proportion of performance-related executive pay aligned to delivering benefits for our customers, in both the short-term and long-term incentive plans.

Objective 4
The Board of the Appointee and its committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

Our comments below on the relevant supporting provisions explain how the Company meets this Objective.

(i) *Boards and committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.*

The Board has determined that A Bryce, J McGlade, B C Rosewell, R G Sexton and P Vicary-Smith are independent. Their backgrounds and skills are described in their biographies on **pages 66 to 69**. The Board has also determined that the following Directors are independent, notwithstanding that they have served on the Board for more than nine years:

- M A B Nègre (appointed in 2006). Mr Nègre has no prior connections with the Group's shareholders. He is a very experienced director and brings to the Board an excellent understanding of the business coupled with sound commercial judgement. The Board is satisfied that he continues to demonstrate a fully independent approach and to contribute a constructive and challenging perspective to Board discussions.
- P Rew (appointed in 2010). Mr Rew has no prior connections with the Group or its shareholders. He brings expertise in finance, risk, corporate governance and compliance and has very significant experience as an audit committee chairman in substantial and complex organisations. The Board is satisfied that Mr Rew continues to demonstrate a fully independent approach and to offer constructive challenge.

Mr Rew and Mr Nègre were appointed under the auspices of NWL's Nomination Committee while NWGL (then Northumbrian Water Group plc) was a separately listed company with no relationship with the current shareholders.

The NWL Board therefore has an excellent balance of skills, experience, independence and knowledge of the Company. The CEO has very significant experience in the water sector and in another customer-facing utility, whilst the INEDs make full use of their individual professional expertise and personal interests to make a significant contribution to addressing the needs of all stakeholders and customers.

The Board therefore believes that the Board and Committees, Sub-committee and Sub-groups have sufficient independent membership to meet the objective.

In preparation for the recruitment of further INEDs during 2021, the Board conducted a skills audit to ensure that the Board has all the required expertise, including that relating to customers and other stakeholders. This work has guided the planning of the INED recruitment campaign.

The non-independent NEDs bring extensive knowledge and experience of global infrastructure, finance and governance.

(ii) *INEDs are the largest single group on the board.*

INEDs will be the largest single group on the Board by 14 July 2021.

(iii) *The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.*

The Chairman was not independent of investors on appointment, when the Company had a single ultimate controlling shareholder. In her Board effectiveness review conducted in 2021, Professor Michelon invited detailed comments on the Chairman's performance. She reports that he is described as "inclusive, engaging and supportive of all directors, welcoming, good at analysing key issues and bringing a clear perspective and flexible in gaining consensus".

Professor Michelon adds that "…there seems to be a great deal of respect for the Chairman, both because of his ability to run meetings efficiently, but also his friendly and open style that encourages all directors to feel comfortable in putting forward their views. All surveyed members confirmed that the Chairman promotes open debate and facilitates constructive discussion, ensuring that all directors have appropriate information and sufficient time for meaningful discussion." Given the balance of the Board and the strong group of INEDs, Professor Michelon confirms that she does not consider the fact that the Chairman is not independent to be an issue for concern.

(iv) *There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.*

There is an annual, independently conducted, evaluation of the performance of the Board. In each of the last four years this has been conducted by Professor Giovanna Michelon, a specialist in corporate governance and social responsibility, and each report has confirmed that the Board is working effectively.

Since 2018, Professor Michelon has conducted independent annual evaluation processes to assess the Board's effectiveness in collectively working for the long-term success of the Company and fulfilling its three key roles of setting the strategic direction of the Company, monitoring management performance and providing support and advice. Professor Michelon had no connection with NWL prior to conducting the 2018 evaluation. P Rew is an advisory board member of the business school at which Professor Michelon was employed until May 2019 but was not involved in her appointment.

In addition to the matters reported above, Professor Michelon's 2021 report highlighted the following:

- Despite the lack of opportunities for face-to-face dialogue, the Board has "remained highly effective" and has continued to make high quality decisions;
- All participating Directors were clearly satisfied with the mix of skills and experience of both executive and non-executive (and independent) Directors, with the secretarial support and quality of documentation and Board minutes; and
- The Chairman's leadership style was described as "inclusive" and able to create an atmosphere where all Board members feel comfortable to comment and are very appreciative of other people's opinions during the meetings.

Recommendations in the 2021 report focused mainly on team building, given the recruitment of five new INEDs, the importance of the skills of the new Senior INED once P Rew steps down and succession planning.

(v) *There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.*

There is such a procedure in place. The recruitment campaign for the new INEDs involved a leading executive search agency to ensure that candidates were drawn from as wide a pool as practicable and was consistent with the highest standards of best practice. As part of her 2021 review, Professor Michelon invited comment on the recruitment process and it was described as "thorough", "fair" and "effective in identifying a good range of highly able and experienced candidates". The appointees reported that the interviews showed that the Board "had a clear vision about the roles, skills and experience it was looking for and selected a group of individuals who complement each other and cover a range of characteristics and expertise that the Board needs".

The new INEDs are participating in a comprehensive on-boarding and induction programme, covering all key aspects of the Company's operations, responsibilities and financial structure. This has involved a significant number of virtual meetings and "teach-ins" with senior colleagues and visits to key sites are now beginning to take place as lockdown restrictions ease. The programme is flexible and the appointees have been encouraged to help shape it. They have all confirmed that the programme is effective and is helping them make an early impact in their new roles.

(vi) *To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.*

The Company has adhered to this.

(vii) *There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.*

There is a majority of INEDs on the AC, Nomination Committee and Remuneration Committee. The latter two Committees are chaired by the Company's Chairman, which the Board considers appropriate in the context of the Company's ownership structure.
The INEDs play a leading part in the Board committees and sub-committees. Importantly, the AC is chaired by the SINED and three of the four members are INEDs. The R&CSC is, similarly, chaired by the SINED and all three members are INEDs. Professor Michelon has described the AC and R&CSC focus on ensuring that NWL has the resilience and long-term financial and operational stability to provide customers with a reliable service and meet the expectations of other stakeholders. More specifically, the AC and R&CSC deliver much of the preparatory work on the Annual Report and Financial Statements and APR, review the work of the internal audit function, review risk management and advise the Board on risk appetite and monitoring compliance with covenants and management of debt. At the AC, there is a particular focus on matters which directly impact customers, such as Guaranteed Standards of Service compliance, whilst the R&CSC held 'deep dives' during the year on water quality and river pollution. The AC and R&CSC report fully and frame proposals on all these matters for the Board to consider. Therefore, in addition to their direct input to the Board, the influence of the INEDs and their contribution to the running of the Company, through the AC and R&CSC, is very significant and highly valued.

Authorisation of Directors' Conflicts of Interest

Directors have a statutory duty, under s175 of the Companies Act 2006, to avoid a situation in which they have, or could have, a conflict of interest with the Company's interests. However, there is no breach of this duty if the Board has authorised the matter in question. The Articles permit Directors (other than the Director having the interest in question) to authorise any situation giving rise to a known or potential conflict. A register of the interests which have been authorised is maintained by the Company Secretary and is available at every Board meeting.

Work of the Committees

Details of the work of the PR19 Board Sub-group, CMA Board Sub-group, AC, R&CSC and Nomination Committee are set out below. During the year, in addition to her review of the effectiveness of the Board, Professor Michelon also conducted a review of the effectiveness of the AC and the R&CSC. The evaluation was conducted by means of a questionnaire and a number of one-to-one interviews, following which Professor Michelon produced a written report. The main findings were as follows:

- Directors were satisfied with the composition and chairmanship of the AC and R&CSC;
- Meeting arrangements were deemed satisfactory and efficient, notwithstanding the challenges presented by the pandemic;
- The internal audit function is well resourced, but it may be appropriate (given the recent appointment of a new Chief Financial Officer and the upcoming change in chairmanship of the AC) to review the strategy and activities of the function to ensure they remain best-in-class and appropriate for NWL;
- AC members are satisfied with the oversight of external audit, risk management and internal controls and assurance;
- R&CSC members are satisfied with the response of NWL's risk management processes to the pandemic; and
- The AC and R&CSC are working effectively and the evidence suggests that the work of the AC and R&CSC ensures that NWL has the resilience and operational stability to provide customers with a reliable service and meet the expectations of other stakeholders.

Professor Michelon also advised that the appointment of a new SINED will be a key decision for the Board during 2021, given the knowledge and expertise which Paul Rew has provided over many years. She also suggested that the Nomination Committee could become more involved in succession planning for important operational roles and that opportunities for team building at Board level should be explored once physical meetings are practicable.

PR19 Board Sub-Group/CMA Board Sub-Group

As reported in NWL's previous Governance Reports, given the critical importance of our Plan proposals, the Board formed a dedicated PR19 Board Sub-group to provide integrated support to both the Board and management in producing and assuring NWL's Business Plan.

The PR19 Board Sub-group worked closely with the Company's full Board, the ELT and relevant senior managers below that level, as well as external assurance providers and the Board approved the submission of the PR19 Business Plan in July 2018.

On 31 January 2019, Ofwat published its PR19 Initial Assessment of Business Plans. The Company was disappointed not to receive 'enhanced' status and was required to revise some elements of its Plan and the revised Plan was submitted on 1 April 2019.

Ofwat published the PR19 FD on 16 December 2019 and this was discussed by the NWL Board on a number of occasions, culminating in the Board's request to Ofwat on 14 February 2020 to refer the PR19 FD to the CMA for redetermination. In order to support the Board in managing the CMA referral the Board established the CMA Board Sub-group, which includes all the INEDs, the Executive Directors and advisers. The Sub-group has met regularly to discuss the referral and to carefully review the Company's submissions to the CMA, on behalf of the Board.

Audit Committee Report

Introduction by the Chairman of the Committee, P Rew

The role of the AC is to assist both Executive Directors and NEDs of NWL and its subsidiaries (the NWL Group) to discharge their individual and collective responsibilities in relation to:

- ensuring the financial and accounting systems of each NWL Group company are providing accurate and up-to-date information on its current position;
- ensuring the published Financial Statements of the NWL Group companies represent a true and fair reflection of this position;
- ensuring the integrity of the Company's regulatory reporting systems and the accuracy of its regulatory reports; and
- assessing the integrity of internal financial controls.

The Committee also maintains oversight of internal and external auditors. I have worked with the members of the Committee and with management and key advisors to produce an action plan for the Committee, setting out the business to be addressed at each meeting. This plan is dynamic and is updated throughout the year. The members of the Committee are updated regularly on developments in financial reporting requirements and on any changes in NWL's regulatory environment.

Members of the Audit Committee

The members of the AC during the year were P Rew (Chairman), L S Chan, M A B Nègre and Dr S Lyster (who stood down in May 2021). A Bryce, B C Rosewell and R G Sexton joined the AC in April 2021 and J McGlade and P Vicary-Smith joined in July 2021.

The CEO, Finance Director, Regulation and Assurance Director, Internal Audit Manager and the external auditor normally attend the Committee's meetings by invitation and M Parker acted as Secretary to the Committee throughout the year. Other senior managers, independent technical auditors and advisers are invited to attend as appropriate.

The work of the Audit Committee

During the year, and up to the date of approval of these Financial Statements, the AC assisted both Executive Directors and NEDs to discharge their individual and collective responsibilities. Its work included the following:

External Audit

- reviewing the draft Financial Statements and APR, considering reports from the external auditor setting out the audit approach and plan, significant audit risks and conclusions on the NWL Group's internal controls and risk management;
- considering the key areas of judgement in the Financial Statements, reviewing reports from management, and ensuring these are consistent with those set out in note 1(q) to the Financial Statements on page 120;
- reviewing the appropriateness of accounting policies and evidence supporting the going concern basis for the Financial Statements and recommending approval of the Financial Statements to the Board;
- reviewing and monitoring the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- approving the external auditor's fees for both audit and non-audit services, by reference to the agreed policy (see further details below).

The Committee monitors the independence of the audit through different reviews and actions including:

- confirmation that the auditor is, in its professional judgement, independent of the NWL Group;
- obtaining from it an account of all relationships which may affect the firm's independence and the objectivity;
- rotation of the lead audit partner every five years; a new lead audit partner has assumed responsibility for the 2021 audit;
- maintaining a policy regarding the engagement of the auditor to conduct non-audit work and monitoring the level of audit fees compared to non-audit fees (see further details below);
- considering audit tender requirements, being tenders every 10 years and mandatory rotation after 20 years. Deloitte LLP was first appointed in respect of the 2012 Annual Report and a

tender process to select the auditor for the year ending 31 March 2022 will commence later this year;
- considering new accounting standards and reviewing their applicability to the Company;
- reviewing the approaches taken to bad debt and taxation provisioning as well as unbilled revenue recognition; and
- reviewing reporting from management or the external auditor on the accounting judgements associated with property, plant and equipment, and assumptions taken regarding valuing financial instruments and the defined benefit pension scheme liability.

In addition, the Committee considers the effectiveness of the external audit, and considers the level of experience, industry knowledge and expertise of the audit team, and its delivery of appropriate challenge in a knowledgeable and constructive manner.

Non-audit fees
The Company has adopted a formal policy on the provision of audit services, which was updated with effect from 1 April 2017, to reflect the FRC's Revised Ethical Standards 2016.

The policy provides for general pre-approval of a range of services which are generally regarded as audit related, where the fees are equal to or less than £50k. It also sets out a broad range of prohibited activities.

Services which are not prohibited, but which have not been pre-approved and in respect of which the fee is equal to or less than £50k, can be approved by the AC Chairman, who reports such approval to the AC. If the fee for such services will exceed £50k the approval of the AC is required.

The policy imposes a cap on non-audit fees equal to 70% of average audit fees for the previous three years.

Where Deloitte LLP is engaged to provide non-audit services, this results from its extensive knowledge on NWL's business and the sector generally, as well as demonstrating the required expertise and capability to provide good value for money.

Non-audit related work undertaken by Deloitte LLP in 2020/21 amounted to fees of £15k, comprising provision of assurance on third party contracts. The fees paid are set out in note 3 to the Financial Statements on **page 122**.

The AC also holds in camera sessions with the audit partner.

Internal Audit
The NWL Group operates a blended model for its internal audit function. Under this model, the internal audit team conducts most of the work, including core financial controls and regulatory reporting reviews. Reviews of specialist technical areas are outsourced to firms with appropriate experience and qualifications when felt necessary.

The Committee reviews and approves the internal audit plan for the year. Its review is designed to ensure that focus is given to the areas of highest risk for the NWL Group and that the audit work focuses on key controls.

Internal audit reports reviewed by the Committee during 2020/21 included:
- **March 2020**
  Wholesale Services
  Process Review – Sewer flooding
  Process Review – Interruptions
- **June 2020**
  Process Review – Customer Complaints and Account Queries
- **September 2020**
  No internal audit reports at this meeting
- **January 2021**
  Developer Services
  Process Review – Appointments
  Process Review – Service Reservoir and Water Tower Inspection Programme
  Review of Automated Sewer Flooding Calculation (GSS)

In addition, at each of its scheduled meetings the Committee received reports detailing progress with implementing recommendations previously raised by internal audit and is satisfied that management has taken appropriate steps to implement the recommendations raised.

The Chair of the Committee, independent of management, maintains regular and direct contact with both the internal and external auditor, allowing open dialogue and feedback.

The Committee has considered the effectiveness of internal audit. There was also an external assessment completed by the Chartered Institute of Internal Auditors during 2018/19 which overall noted that the function "clearly meets the expectations of its stakeholders". The Committee is satisfied that the current model described above remains appropriate for the Group.

Work with other assurance providers

Support with data assurance work for the principal regulatory reporting (including the APR and PR19 in the year) was provided by Deloitte LLP for financial tables and PwC for our Internal Audit team for non-financial tables.

Our overall approach to assurance of regulatory data has been approved by the Committee and is described below:

- business as usual assurance for our ongoing data capture and measurement processes;
- each piece of data must be provided by the nominated data provider and reviewed before being audited. This is controlled by a workflow system; and
- additional independent technical assurance was procured (from PwC as our External Technical Auditor) to examine areas that were identified as being higher risk as defined by our regulatory data risk management framework as approved by the Committee. Our approach is described in our draft and final assurance plans with the results being described in our Data Assurance Summary annually.

Reports from Deloitte LLP, PwC and Internal Audit are received and reviewed by the Committee.

Further compliance and other matters

- reviewing and commenting on the APR, including the underlying assurance, reviewing evidence to support the Condition F6A.2A certificate (statement of sufficiency of financial resources) and long-term Viability Statement and recommending their approval to the Board;
- approving arrangements for monitoring compliance with the Company's procedures designed to prevent bribery, having regard to the Bribery Act 2010 and the code of conduct 'Our Way at NWG', including receiving reports on any whistleblowing allegations;
- reviewing management of tax compliance matters and other tax issues, and discussing key matters with HMRC; and
- reviewing the Company's Long-Term Viability Statement.

The AC Chairman reports formally to the NWL Board following each AC meeting, and its minutes are circulated to both NWL and NWGL Boards.

Attendance at the six AC meetings during the year was as follows:

Name	Attendance
P Rew	6
L S Chan	0
N Herrington (as alternate for L S Chan)	6
Dr S Lyster	6
M A B Nègre	6

Paul Rew

P Rew
Chairman of the Audit Committee

Risk & Compliance Sub-Committee Report

Introduction by the Chairman of the Sub-committee, P Rew

The role of the Sub-committee is to assist both Executive and NEDs to discharge their individual and collective responsibilities in relation to assessing the scope and effectiveness of the NWL Group's risk management systems and the integrity of its internal financial controls.

Members of the Risk & Compliance Sub-committee

The members of the R&CSC during the year ended 31 March 2021 were P Rew (Chairman), M A B Nègre and Dr S Lyster (who stood down in May 2021). A Bryce, B C Rosewell and R G Sexton joined the R&CSC in April 2021 and J McGlade and P Vicary-Smith joined in July 2021.

The work of the Risk & Compliance Sub-committee

The ELT implements policies on risk management and internal control and ensures that risks are appropriately identified and managed within the business, to ensure that the Company's resources and capacity to deliver services as required by customers remain resilient. This approach is set out in a Risk Management Framework, which has been endorsed by the R&CSC. The ELT reviews the approach to risk management in detail every year and reviews the significant risks every month. Any significant issues are reported by the CEO to the Board. Senior management implements policies on risk management and internal control.

The R&CSC, on behalf of the Board, has performed a robust assessment of the principal risks facing the Company, including those that would threaten its business model, resilience, future performance, solvency or liquidity. These principal risks, and how they are managed, are described on **pages 55 to 60** in the Strategic Report.

The internal control framework supports the risk management process, ensuring that risks are appropriately managed, that controls are effective and that appropriate remedial action is taken where identified. Risks are mapped against the providers of assurance, whether this be management, internal or external assurance. The Board is supported by the AC in monitoring the effectiveness of the internal control framework with primary assurance being provided by the internal audit team.

The R&CSC, on behalf of the Board, has carried out an annual review of the effectiveness of the Company's risk management and internal control systems. This review confirmed that the Company has strong systems of internal control and robust processes in place to enable it to identify, evaluate and manage the risks it faces and to ensure that its obligations are met. These systems and processes are embedded in the organisation and are reviewed regularly by the Board, its Committees and Sub-committee. The annual review confirmed that the risk management and internal control systems have operated effectively through the year and that there have been no significant failings or weaknesses.

During the year, and up to the date of approval of these Financial Statements, the work of the R&CSC included the following:

- reviewing reports at each meeting on the top-rated managed risks and priorities for assurance (being those risks with the biggest reduction between the business (gross) and managed (net) risk scores), representing key control areas for the Company;
- reviewing high impact, low likelihood risks which have a rare to unlikely likelihood of occurrence but a potentially catastrophic level of impact;
- reviewing the management of specific areas of risk in relation to the COVID-19 pandemic, a major business change project iAM and business continuity arrangements;
- advising the Board on risk appetite and exposure and reviewing risk assessment processes as well as keeping the effectiveness of the risk and internal control management systems under review;
- monitoring compliance with covenants and treasury risks;
- reviewing management of customer debt;
- "deep dives" on water quality and river pollution; and
- reviewing the risk and control framework and reporting.

Attendance at the three scheduled R&CSC meetings during the year was as follows:

Name	Attendance
P Rew	3
Dr S Lyster	3
M A B Nègre	3

The Sub-committee holds a special meeting with other members of the Board each year to conduct a separate Strategic Risk review exercise.

The Board is able to monitor the impact of environmental, social and governance matters on the Company's business, to assess the impact of significant risks on the business and to evaluate methods of managing these risks through reports it receives from the AC and the R&CSC.

P Rew
Chairman of the Risk & Compliance Sub-committee

Nomination Committee

The Nomination Committee has wide-ranging terms of reference which are available on the Company's website. The members during the year were A J Hunter (Chairman), M Fay, Dr S Lyster, D N Macrae and P Rew. The Committee met once formally during the year, principally to discuss the appointment of the five new INEDs over the course of 2021/22 and to recommend their appointment to the Board. There were further ad hoc discussions as required through the year.

Compliance with the Wates Principles

The Board considers that it complies with the relevant provisions of the Wates Principles, through the corporate governance arrangements described in detail above, and the further arrangements set out below.

Principle One – Purpose and Leadership

An effective Board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

Please see the comments on compliance with Objective 1 of the 2019 Ofwat Objectives, on pages 72 to 73.

Principle Two – Board Composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

Please see the comments on compliance with Objective 4 of the 2019 Ofwat Objectives, on pages 76 to 78.

Principle Three – Director Responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

The Company has in place clear corporate governance practices which provide clear lines of accountability and responsibility. The members of the ELT have clearly defined responsibilities and levels of authority are set out in Financial Approval Rules (as explained in the comments in relation to Objective 2 of the 2019 Ofwat Objectives on page 74). The Board's approach to conflicts of interest and the relationship between the Company and its owners is also explained in that section of the Report. The Chairman and Company Secretary discuss governance processes from time to time to confirm they remain fit for purpose and consider initiatives which could strengthen governance.

Details of the Board Committees are set out in the comments on Ofwat's 2019 Objective 4, on pages pages 76 to 78.

Details of processes which are in place to ensure systems and controls are operating effectively and that information provided to the Board is robust are set out throughout this document and in the Company's APR and Data Assurance Summary.

Principle Four – Opportunity and Risk

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

The Company is a long term business and ensuring its long term sustainable success is a key driver underpinning the work of the Board and Committees, as described in detail in this Report. The Board's approach to oversight of the identification and mitigation of risks is detailed in the Risk Report on pages 55 to 60.

Principle Five – Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

A detailed explanation of the Company's executive pay policy is provided in the Remuneration Committee Report on pages 87 to 99.

Principle Six – Stakeholder Relationships and Engagement

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

Details of the Company's extensive stakeholder engagement programme are set out on pages 14 to 17.

Code of Conduct

The Group has a code of conduct, 'Our Way at NWG', covering its relationships with customers, employees, suppliers, local communities, shareholders, other investors and regulators. This document provides clear guidance to employees in relation to personal conduct, conflicts of interest, the anti-bribery policy and a number of other matters.

Remuneration Committee Report

The following report has been produced in accordance with section 35A of the Water Industry Act 1991. It also has regard to the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 in respect of directors' remuneration reporting for quoted companies, albeit in the context of a company which is not a listed public limited company.

Annual Statement

The work of the Remuneration Committee comprises the adoption of principles and standards in relation to executive remuneration and benefits, as well as agreeing individual remuneration packages. All decisions regarding Directors' remuneration are taken by the Remuneration Committee, other than where stated.

Members of the Remuneration Committee

The members of the Remuneration Committee during the year were A J Hunter (Chairman), P Rew, M Fay, Dr S Lyster and D N Macrae. H Mottram attends Committee meetings but does not participate in discussions relating to her own remuneration. There is a majority of INEDs in accordance with the Ofwat Principles.

The work of the Remuneration Committee

The Remuneration Committee met twice during the year, in April 2020 and January 2021, and again after the balance sheet date in May 2021 to finalise incentive plan awards. All members attended the meetings.

Set out below is a brief summary of the work of the Committee:

- finalising awards for the 2019 Short-term Incentive Plan (STIP) and Long-term Incentive Plan (LTIP) and confirming targets for the 2020 STIP and LTIP;
- reviewing Executive pay and Non-Executive Directors' fees, taking account of market benchmarking data, and agreed annual pay awards to take effect from 1 January 2021;
- considering an assurance report from the Internal Audit Manager on performance against targets reflected in the 2020 STIP and LTIP;
- agreeing STIP payments for the 2020 calendar year, including reviewing performance against the balanced scorecard measures;
- agreeing the level at which the LTIP award in respect of the 2020 calendar year would vest;
- setting performance targets for the STIP for Executive Directors and senior managers for the 2021 calendar year in accordance with the structure put in place in 2020, reflecting all of the corporate themes in our balanced scorecard to deliver benefits for all stakeholders and ensuring that targets are set at stretching levels aligned to industry-leading performance; and
- setting performance targets for the LTIP scheme for the award in respect of the 2021 calendar year in accordance with the structure put in place in 2020, reflecting a sub-set of the balanced scorecard measures which deliver benefits for our stakeholders.

A J Hunter
Chairman of the Remuneration Committee

Directors' Remuneration Policy

The policy of the Remuneration Committee is to pay no more than necessary to attract and retain good quality directors, and to ensure that policy is aligned with market practice. For Executive Directors the reward policy is designed to achieve a balance between attraction, reward for performance and retention, and salaries are based on relevant market benchmarks, which are reviewed typically every three years. For Non-Executive Directors, fees paid reflect market practice for similar sized companies, and may be enhanced for roles leading Board Committees.

Executive Directors

The remuneration of the Executive Directors comprises:

- basic salary;
- benefits in kind;
- a performance related STIP;
- annual LTIP awards; and
- pension benefits.

In addition to reviewing each constituent element, the Remuneration Committee reviews the remuneration packages as a whole to ensure that they remain appropriate in terms of structure and quantum. The Remuneration Committee is satisfied that this balance between fixed and performance related remuneration remains appropriate.

A significant proportion of remuneration is linked to Company performance through the short-term and long-term incentive plans, with 59% of the CEO's maximum remuneration being linked to performance, as illustrated on page 91.

The remuneration policy is designed to incentivise performance across all the full range of the Company's strategic themes and not to over-emphasise short-term financial gains. The following table describes the policy in more detail, explaining the purpose of each component, how the policy operates and, for the variable elements of remuneration, the maximum amount payable and how performance is assessed.

Purpose	Operation	Performance assessment	Maximum payable
Basic salary			
Basic salaries are set at a level to attract and retain Directors with the leadership capabilities to deliver the Company's vision of being the national leader in the provision of sustainable water and wastewater services and to reflect the external market.	Basic salary is reviewed annually based on individual contributions, periodic benchmarking to the external market and with regard to the expected pay award for other groups of employees.	The basic salaries payable to Directors of NWL are not directly linked to specific standards of performance in connection with the carrying out of functions of a 'relevant undertaker'. There is no variable performance related element.	Fixed annual amount determined annually by the Remuneration Committee.
Benefits in kind			
Other employment benefits provided in accordance with the Company's policy on provision of benefits to all staff.	Benefits provided to the Executive Directors comprise car and fuel allowances, healthcare and professional subscriptions.	There is no variable performance related element.	Fixed annual amount set in accordance with the Company's policies on provision of benefits to all staff.
STIP			
The purpose of the STIP is to focus on delivering key business performance targets in the year. The performance targets are firmly linked to NWL's strategic themes (customer, environment, competitiveness, people and communities) as reported in the balanced scorecard. Stretching targets are set which are aligned to the Company's vision of being the national leader in the provision of sustainable water and wastewater services.	The STIP is assessed on a calendar year basis. Awards are paid in cash with no deferral, other than for specific reasons, such as a performance metric not being finalised at the point of award. A clawback applies in the event that results on which the STIP is paid are subsequently found to be inaccurate or there has been relevant misconduct on the part of the employee.	The STIP is structured with 60% related to the achievement of balanced scorecard targets, delivering benefits for customers and the environment, and 40% related to financial targets. The Chairman retains the right to award an additional discretionary bonus to the CEO, taking account of overall performance.	The maximum STIP payable, as a percentage of basic salary, is 70% for the CEO and 50% for other Executive Directors.

Purpose	Operation	Performance assessment	Maximum payable
LTIP			
Our LTIP is structured differently from others in the sector and is designed to operate as a modest retention mechanism only.	The LTIP is a cash-based award, with deferred payment. Vesting of the LTIP is based on performance in the first calendar year after award. Payment is deferred until the completion of four years from the start of the performance period.	The LTIP is structured with 60% related to the achievement of balanced scorecard targets, delivering benefits for customers and the environment, and 40% related to financial targets. For the financial targets there will be no vesting if less than 97.5% of the target value is achieved, increasing on a sliding scale to 50% vesting if 100% of the target is achieved and 100% vesting if 105% of the target is achieved.	The maximum LTIP payable, as a percentage of basic salary, is 50% for the CEO and 30% for other Executive Directors.
Pension			
Pension benefits are provided at a level to reflect market expectations.	The Company operates the Northumbrian Water Pension Scheme (NWPS or the Scheme) which has defined benefit and defined contribution sections. The defined benefit section closed to new entrants on 31 December 2007. More details of the NWPS are provided in note 24 of the Financial Statements.	There is no variable performance related element.	H Mottram left the NWPS in 2016 and receives additional salary payments in lieu of pension contributions. C I Johns participated in the defined contribution section of the NWPS, until he left the Company during the year, making an employee contribution of 8% of basic salary (under a salary sacrifice arrangement) and receiving an employer contribution of 15% of salary, up to the annual pension contribution taxation limit, and additional salary payments in lieu of pension contributions. A C Jones left the NWPS in 2019/20 and received additional salary payments in lieu of pension contributions until his retirement during the year.

Illustration of remuneration policy

The graphs below show for H Mottram, for the proportion of her remuneration borne by the Company:

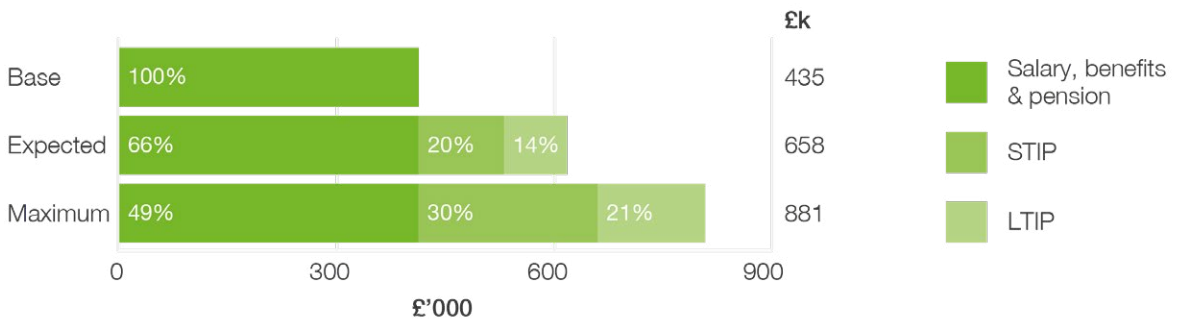
- the base level of remuneration, which is not dependent upon performance and comprises basic salary, benefits in kind and pension;
- the expected level of remuneration, reflecting a typical level of performance against targets for the STIP and LTIP; and
- the maximum level of remuneration, if all STIP and LTIP performance targets were fully achieved.

For H Mottram, 51% of maximum remuneration is linked to Company performance through the STIP and LTIP.

For the purposes of the graph, the expected level of performance for both the STIP and LTIP has been assumed to achieve 50% of the maximum value, though awards are dependent upon actual performance.

Information on actual awards for the STIP and LTIP in respect of 2020 is provided on pages 94 to 95.

H Mottram



Non-executive Directors

Fees	Other components of remuneration	Remuneration elsewhere in the Group
The Company's policy is that the Independent Non-Executive Directors receive fees for their duties. The level of fees is set by reference to the market. An additional fee is paid to the Chair of the Audit Committee to reflect the additional responsibilities and time commitment involved.	The Non-Executive Directors do not receive benefits in kind and do not participate in the STIP, LTIP or pension schemes operated by the Company.	The INEDs do not receive any other remuneration from the Company, the Group or its shareholders. The other Non-Executive Directors receive no remuneration from the Company.

Service contracts
The service contracts of Executive Directors have a notice period of six months from either side.

The contracts do not contain any specific provisions related to payment for loss of office. Any such payments would be at the discretion of the Remuneration Committee and would take account of the contractual notice period and any STIP payments considered to have been earned. LTIP awards will typically lapse, although the Remuneration Committee may approve payment of outstanding LTIP awards if a Director is considered to be a 'good leaver', for example upon retirement.

INEDs are engaged on a contract for services with a notice period of six months from either side. No payment is made for loss of office other than accrued fees.

The other NEDs do not have service contracts with the Company, and receive no payment from the Company.

Approach to remuneration on recruitment
Newly appointed Directors are remunerated in accordance with the policy set out in this report. Service contracts for new Directors have a notice period of six months from either side.

Consideration of shareholder views
The Remuneration Committee comprises two shareholder-appointed Directors and three INEDs. In the context of a private company with NWL's ownership structure, this ensures that the views of the shareholder are taken into account when setting executive remuneration, whilst also maintaining a strong independent presence on the Committee.

Consideration of employment conditions elsewhere in the Company
The Remuneration Committee reviews Directors' pay on an annual basis, taking account of market trend information and pay awards for the wider workforce in the Company. Whilst Directors' remuneration is not specifically consulted on with employees, in general, annual pay awards for Directors reflect the target pay awards for the workforce, which are subject to consultation under the Company's Employee Relations Framework. The incentive pay arrangements for executives are not mirrored elsewhere, but are considered to be relatively modest in comparison with market comparisons.

Directors' remuneration packages are benchmarked against market data on a periodic basis, typically every three years, with support from external advisers. The salary benchmarking is reviewed annually for senior managers and every three years for the wider workforce.

Directors' remuneration in 2020/21 (audited)

The table below shows the total remuneration paid by the Company to Directors during the year, along with comparative information for the previous year. The table has been produced in accordance with the requirements of Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

	Salaries and fees		Benefits in kind		STIP		LTIP		Pension		Total remuneration	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
H Mottram	383	375	8	9	140	158	55	-	42	41	628	583
C I Johns	41	193	2	8	-	46	-	-	4	27	47	274
A C Jones	190	283	7	13	43	65	21	-	16	44	277	405
M Fay	51	48	-	-	-	-	-	-	-	-	51	48
F R Frame	-	11	-	-	-	-	-	-	-	-	-	11
Dr S Lyster	51	48	-	-	-	-	-	-	-	-	51	48
M A B Nègre	68	48	-	-	-	-	-	-	-	-	68	48
P Rew	68	65	-	-	-	-	-	-	-	-	68	65
	852	**1,071**	**17**	**30**	**183**	**269**	**76**	**-**	**62**	**112**	**1,190**	**1,482**

The table shows only the proportion of remuneration borne by the Company. For two of the Directors, H Mottram and C I Johns, NWL paid 70% of their remuneration and NWGL paid the remaining 30%. For F R Frame, NWL paid 30% of his remuneration and NWGL paid the remaining 70%. For the other Directors reported in the table, NWL paid 100% of their remuneration.

The Executive Directors receive salary payments in lieu of employer pension contributions. These payments are reported under the pension heading in the table.

Basic salary

Basic salary is set by reference to market data and trends.

For the calendar year 2021, senior executives were awarded an annual increase in their basic salaries of 0.5%. This was the same as the level awarded to other senior managers, but expected to be less than that awarded to other employees, which is under negotiation.

Benefits

Taxable benefits provided to the Executive Directors comprise car and fuel allowance, healthcare and professional subscriptions. The values are not significant in the context of overall remuneration.

STIP

The STIP for the 2020 calendar year was structured by the Committee in accordance with the policy outlined above, as follows:

- up to 40% payable on balanced scorecard financial targets; and
- up to 60% payable on balanced scorecard non-financial targets.

The balanced scorecard measures and targets, and performance against the targets in the year, are shown in the table below. These targets are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver our 'national leader' vision. This means that they are often more stretching than the regulatory PCs reported in the APR.

Scorecard measure	Target	Performance	Achieved	% of total awarded	% of total STIP potential
Customer					
C-MeX experience	top 2	2nd	yes	2.5	2.5
C-MeX customer service	top 2	3rd	no	-	2.5
D-MeX experience	top 2	7th	no	-	5
Unplanned interruptions >3 hours (mm:ss per property) [1]	<=5:24	4:04	yes	5	5
Compliance risk index (number) [1]	<=2	7.11	no	-	5
Repeat sewer flooding (number) [1]	<=46	25	yes	2.5	2.5
Internal sewer flooding (number) [1]	<=285	244	yes	2.5	2.5
Environment					
Leakage – NW (Mld) [1]	<=131.7	140.0	no	-	2.5
Leakage – ESW (Mld) [1]	<=64.4	66.0	no	-	2.5
Discharge permit compliance (EPA) [1]	>=99%	99.51%	yes	5	5
Pollution incidents category 1 & 2 [1]	<=1	1	yes	5	5
Greenhouse gas emissions (ktCO2e) [1]	<=57.2	55.9	yes	5	5
Competitiveness					
Group EBIT	budget	-	no	-	20
Group distributions	budget	-	no	-	20
People					
Employee engagement score (Trust Index) (%)	>=65	70	yes	5	5
Lost time reportable accidents (number)	<=3	9	no	-	5
Communities					
BITC Platinum Plus/Ethisphere/CCW 'Most Trusted Water Company'	award	awarded	yes	5	5
Total				**37.5**	**100**

1. Where stretching targets are set which are designed to achieve industry leading performance, the Remuneration Committee has agreed that if the target score is not achieved but actual performance is at an industry leading level and has shown an improvement on prior year performance, the target will be deemed to have been achieved.

For the CEO, in addition to the STIP calculation explained above, a further discretionary award was made by the Committee to reflect the Board's continued satisfaction with the CEO's performance. This remained within the limit of the overall potential maximum STIP award.

The total STIP awards for 2020 were as follows:

	STIP awarded (out of 100%)	Maximum STIP (% of basic salary)	STIP awarded (% of basic salary)
H Mottram	54.2%	70%	37.9%
A C Jones	37.5%	50%	18.8%

C I Johns was not eligible for a STIP award as he was a director of the Company for less than six months of the year.

LTIP

A cash LTIP was awarded by the Committee in 2020, structured in accordance with the policy outlined above, as follows:

- up to 40% payable on balanced scorecard financial targets; and
- up to 60% payable on balanced scorecard non-financial targets.

The scheme relates to the period January 2020 to December 2023. Performance targets were assessed in the first year of the scheme with payment deferred until early 2024, after the end of the four-year scheme period.

Scorecard measure	Target	Performance	Achieved	% of total awarded	% of total STIP potential
Customer & Environment					
C-MeX customer service	top 2	3rd	no	-	10
Unplanned interruptions >3 hours (mm:ss per property)	<=5:24	4:04	yes	10	10
Compliance risk index (number)	<=2	7.11	no	-	10
Internal sewer flooding (number)	<=285	244	yes	10	10
Leakage – NW (Mld)	<=131.7	140.0	no	-	5
Leakage – ESW (Mld)	<=64.4	66.0	no	-	5
Pollution incidents category 1 & 2	<=1	1	yes	10	10
Competitiveness					
Group profit after tax	budget	-	no	-	20
Group distributions	budget	-	no	-	20
Total				**30**	**100**

The total LTIP awards for 2020 were as follows:

	LTIP awarded (out of 100%)	Maximum LTIP (% of basic salary)	LTIP awarded (% of basic salary)
H Mottram	30%	50%	15%
A C Jones	30%	30%	9%

C I Johns was not eligible for a LTIP award as he was a director of the Company for less than six months of the year.

Pension

Pension arrangements operated in accordance with the policy outlined on page 90.

A C Jones was an active member of the defined benefit section of the NWPS until January 2020, therefore the prior year pension value shown in the table on page 93 has been calculated in accordance with the 2013 Regulations and represents the estimated increase in the capital value of his pension in that year.

Percentage change in CEO remuneration

The table below shows the change in remuneration for 2020/21 compared to 2019/20 for the CEO and for other employees. In order to make a meaningful comparison, other employees includes only those who have been employed for the full two-year period and excludes senior management whose remuneration is set by the Remuneration Committee. STIP has been compared to the annual bonus paid to the senior management cohort.

	Change in CEO remuneration (%)	Change in other employees' remuneration (%)
Salaries and fees	2.0	3.7
Benefits in kind	(14.0)	(20.0)
STIP / annual bonus	(11.1)	(9.8)

CEO pay ratio

The Companies (Miscellaneous Reporting) Regulations 2018 introduced new legislation in respect of reporting ratio of CEO pay compared to other employees. The table below shows this information produced in accordance with the legislation.

Year	Method	25th percentile ratio	Median pay ratio	75th percentile ratio
2021	Option A	21:1	16:1	13:1
2020	Option A	20:1	16:1	12:1
2019	Option A	22:1	17:1	14:1

The Company has chosen Option A (as set out in the said Regulations) for calculating the pay ratio on the basis that it represents the most complete data set. The employees representing each of the percentiles were based on the full year remuneration of staff employed throughout the year. The pension cost for those employees in the defined benefit section of the pension scheme have been calculated based on the estimated employer contributions as applying the method set out in section 229 of the Finance Act 2004 for all members would not be practical. Under Option A, the value of the full-year remuneration of each relevant employee is listed in order from lowest to highest and the values at the 25th, 50th and 75th percentile points identified.

Year	25th percentile employee £'000	Median pay employee £'000	75th percentile employee £'000
Salary component of pay and benefits	25	33	45
Total pay and benefits	30	39	49

CEO remuneration over time

Since the current remuneration policy was put in place in 2012, the basic salary of the CEO has increased by the same as, or less than, the average pay award for the majority of employees each year, which has been targeted to ensure we keep pace with the general cost of living. Over the same period, the maximum potential bonus available under the STIP and LTIP has remained a constant proportion of salary and the actual bonuses awarded have increased year on year by less than 2%.

Relative importance of spend on pay

The table below shows total staff costs and dividends paid in the current and prior years, and the year on year change.

Year	2021 £'m	2020 £'m	Change %
Staff costs (note 5)	151.7	150.1	1.1
Dividends (note 8)	-	65.0	-100

Remuneration policy for 2021/22

At its meeting in January 2020, the Remuneration Committee made changes to the STIP and LTIP to increase the proportion of performance-related executive pay aligned to delivering benefits for our customers to 60%. No changes have been made to the structures of the STIP and LTIP for 2021.

STIP 2021

The balanced scorecard targets for 2021/22 are shown in the table below, in accordance with the revised policy. These are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver our 'national leader' vision.

Scorecard measure	Target	% of total STIP potential
Customer		
C-MeX experience	top 2 company	2.5
C-MeX customer service	top 2 company	2.5
D-MeX experience	top 2 company	5
Unplanned interruptions >3 hours (mm:ss per property) [1]	<=5:02	5
Compliance risk index (number) [1]	<=3	5
Repeat sewer flooding (number) [1]	<=28	2.5
Internal sewer flooding (number) [1]	<=212	2.5
Environment		
Leakage – NW (Mld) [1]	<=126.9	2.5
Leakage – ESW (Mld) [1]	<=60.2	2.5
Discharge permit compliance (EPA) [1]	100%	5
Pollution incidents category 1 & 2 [1]	<=1	5
Greenhouse gas emissions (ktCO2e) [1]	<=50.21	5
Competitiveness		
Group EBIT	budget	20
Group distributions	budget	20
People		
Employee engagement Trust Index	>=72	5
Lost time reportable accidents (number)	<=3	5
Communities		
BITC Platinum Plus/Ethisphere/CCW 'Most Trusted Water Company'	awarded	5
Total		**100**

[1]. Where stretching targets are set which are designed to achieve industry leading performance, the Remuneration Committee has agreed that if the target score is not achieved but actual performance is at an industry leading level and has shown an improvement on prior year performance, the target will be deemed to have been achieved.

LTIP 2021

The LTIP targets for the 2021 scheme are shown in the table below, in accordance with the revised policy. These are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver our 'national leader' vision. This means that they are often more stretching than the regulatory PCs reported in the APR.

Scorecard measure	Target	% of total LTIP potential
Customer & Environment		
C-MeX customer service	top 2 company	10
Unplanned interruptions >3 hours (mm:ss per property)	<=5:02	10
Compliance risk index (number)	<=3	10
Internal sewer flooding (number)	<=212	10
Leakage – NW (Mld)	<=126.9	5
Leakage – ESW (Mld)	<=60.2	5
Pollution incidents category 1 & 2	<=1 (cat 2)	10
Competitiveness		
Group profit after tax	budget	20
Group distributions	budget	20
Total		**100**

Directors' Report

Directors

The Directors who served during the year, and to the date of signing, are listed on pages 66 to 69 of the Governance Report.

Disclosures provided in the Strategic Report

Future developments which may impact on the Company are described in the CEO's Report and in the Strategic Report.

Our approach to research and innovation is described in the Performance Review section of our Strategic Report under the Competitiveness heading and the costs of research and development are disclosed in note 3 of the Financial Statements.

Our policies in respect of the employment of disabled persons are set out in the Performance Review section of our Strategic Report under Diversity and Equal opportunities on page 42.

Information on results and dividends and capital structure and equity are contained in the Financial Performance and Structure section of the Strategic Report. Our policies in relation to the use of financial instruments and treasury operations are set out in the same section under the 'Treasury policies' heading.

The Companies (Miscellaneous Reporting) Regulations 2018, effective for years beginning on or after 1 January 2019, set out revised requirements for reporting on engagement with employees, suppliers, customers and others in a business relationship with the Company. Our approach to stakeholder engagement is set out in the Our Stakeholders section of our Strategic Report on pages 14 to 17, and summarised on our S172 Statement on pages 18 to 21.

Further information in relation to employee engagement is set out in the Performance Review section of our Strategic Report under the People heading on pages 41 to 45.

Statement of corporate governance arrangements

The Company's corporate governance arrangements are described on page 85 of the Governance Report. In accordance with the requirements of our Licence, we report our corporate governance arrangements against the 2019 Objectives set by Ofwat. We also report compliance with the Wates Principles, which are appropriate for large privately owned companies.

Political donations

NWL does not support any political party and we do not, directly or through any subsidiary, make what are commonly regarded as donations to any political party or other political organisation. However, the wide definition of donations in the Political Parties, Elections and Referendums Act 2000 covers activities which form part of the necessary relationship between the Company and political parties and political organisations. These activities include attending party conferences, as these provide the best opportunity to meet a range of stakeholders, both national and local, to explain our activities, as well as local meetings with MPs, MEPs and their agents. During the year, no external costs were associated with these activities, however, Company representatives attended the party conferences of the Labour and Conservative parties.

Energy and Carbon reporting

As part of our PR19 Business Plan we set an ambitious target to achieve net zero emissions by the end of 2027. Our plan is to deliver this through a combination of further investment in renewable energy and green vehicles and continued focus on using energy more efficiently. Our approach to reducing energy emissions is described in more detail in the Performance Review section of our Strategic Report under the Environment heading on **pages 34 to 37**.

In line with our regulatory PC, emissions are calculated using the UK Water Industry Research Ltd Carbon Accounting Workbook, using 'market-based' reporting which allows for the purchase of green energy through the electricity and gas networks. This year has seen a major update to the Carbon Accounting Workbook which has changed the calculations for major components of our emissions inventory. We have therefore updated our baseline emissions for 2019/20 using the new Workbook.

Both the baseline and 2020/21 emissions have been externally assured in accordance with ISO 14064-1 to ensure validity and transparency.

Under the calculation methodology above, our baseline GHG emissions in 2019/20 were 68.8ktCO2e. Our total net operational GHG emissions for 2020/21 reduced to 55.9ktCO2e, a reduction of 12.9ktCO2e, which was more than double our regulatory performance commitment. The Table below summarises our emissions for the baseline year and the reporting year and giving both market-based and location-based performance measures as reported in the Carbon Accounting Workbook.

Annual operational GHG emissions		Location based		Market based	
		2020/21	2019/20	2020/21	2019/20
Scope 1	Direct emissions from burning of fuels	43.9	28.9	43.9	28.9
	Process and fugitive emissions	28.3	28.8	28.3	28.8
	Transport in company owned/leased vehicles	8.3	8.3	8.3	8.3
Scope 2	Purchased electricity	75.4	86.9	-	-
Scope 3	Public transport and travel in private vehicles	0.2	0.9	0.2	0.9
	Outsourced activities	2.1	2.2	2.1	2.2
	Electricity Transmission & Distribution	6.5	7.3	-	-
Gross operational emissions		**164.7**	**163.3**	**82.8**	**69.1**
Exports	Renewable electricity generated & exported	(0.2)	(0.2)	(0.3)	(0.3)
	Biomethane generated & exported	(26.6)	(15.4)	(26.6)	-
Net operational emissions		**137.9**	**147.7**	**55.9**	**68.8**
Figures in ktCO2e/Ml					

In 2020/21 the Company used ~590m kWh of energy (2019/20: ~530m kWh) including:

- 323.4m kWh of grid-supplied electricity used for pumping, treatment and support functions (2019/20: 339.9m);
- 230.4m kWh of natural gas used for pumping, treatment and support functions (2019/20: 147.7m); and
- 34.4m kWh of road fuels used (2019/20: 37.5m).

In addition to gross and net emissions we also monitor the emissions intensity of our operations using three measures, one relating to the water service and two for wastewater. These measures can vary depending on emissions performance and levels of rainfall or customer demand.

	Location based		Market based	
Annual operational GHG intensity ratio	**2020/21**	**2019/20**	**2020/21**	**2019/20**
Emissions/Ml of water	126	144	3	2
Emissions/Ml of sewage treated (flow to full treatment)	276	253	198	155
Emissions/Ml of sewage treated (water distribution input)	556	517	399	316

Figures in kgCO2e/Ml

Directors' indemnification

The Company has maintained Directors' and Officers' (D&O) insurance cover throughout the year to 31 March 2021, provided under group-wide D&O insurance placed by CKHH.

On 21 March 2017 NWGL entered into a deed of indemnity to grant the Directors of NWGL and its subsidiaries further protection against liability to third parties, subject to the conditions set out in the Companies Act 2006, and this remains in place.

Directors' statement

As required under s418 of the Companies Act 2006, so far as each current Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

In accordance with S494ZA of the Companies Act 2006, the Company will undertake a selection process to appoint an auditor for the year ending 31 March 2022.

Financial statements preparation and going concern

The Directors confirm that, in their opinion, the Company has sufficient financial resources and facilities available to enable it to carry out its activities for at least the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements. In arriving at their decision, the Directors have taken into account:

- the financial strength of the Company at the balance sheet date and financial performance, which is in line with expectations and reviewed at each Board meeting, most recently in July 2021;
- the key financial ratios over the next 12 month planning horizon, as reflected in investment grade credit ratings;
- the fact that the Company has in place £450m of committed bank facilities as back up liquidity, maturing in December 2025, which was undrawn at 31 March 2021; and
- the Company's formal governance and risk management arrangements which are monitored by the Audit Committee, R&CSC and Board.

The Directors have taken specific account of the impacts of the COVID-19 pandemic when making this assessment. The Board has received regular updates on the operational and financial impacts on the business and the business continuity arrangements in place to ensure continuity of provision of service.

Beyond the next 12 month period, the Directors are conscious of the need to refinance £350m of Eurobonds in February 2023 (see note 15). The Board is confident that that the sector remains attractive to debt investors, as indicated by several recent debt issuances by other companies and the Company's own discussions with potential lenders. A financing strategy is being formulated to take this forward.

Viability statement

When considering longer-term viability, the Directors note that, in their opinion, the PR19 FD, as revised by the CMA in March 2021, has resulted in a lower cost of capital, significant totex challenge, stretching PC targets and an asymmetric penalties and incentives mechanism which represents a significant challenge to financeability in AMP7. There is also lower financial headroom available for management of downside shocks and there is likely to be pressure on projected credit ratings, as reflected in the current negative outlook from S&P.

Financial forecasts over longer-term timeframes are inherently subject to more risk that the assumptions adopted will not be realised. As set out above, the Directors have confirmed that the business remains a going concern. In considering the longer-term viability, the Directors note the challenges inherent in the PR19 FD referred to above and that some of the downside stress test scenarios would place significant pressure on projected credit ratings in the next four years, particularly higher operating and capital costs. The longer-term view beyond four years assumes that the 2024 price review will provide a sufficient rate of return to enable the Company to finance its functions for the period 2025-30.

Additional uncertainty remains over the economic impact of the COVID-19 pandemic, specifically in respect of changes in water demand patterns, pressure on household revenue collection as government support arrangements are phased out and longer-term macro-economic impacts.

The Directors have assessed the future prospects of the Company and consider that the Company should be able to manage its business risks, continue to operate and meet its liabilities as they fall due over the nine years to March 2030 given the long-term nature of the business.

In arriving at their conclusion, the Directors have taken into account:

- the Licence which is in place on a rolling 25 year basis;
- revenue from wholesale and household retail price controls to March 2025 provided by the PR19 FD, as revised by the CMA in March 2021;
- the financial strength of the Company at the balance sheet date and the fact that the Company has a £450m undrawn committed bank facility as back up liquidity, maturing in December 2025 with the intention of extending until 2030 in due course;
- the key financial ratios over the planning horizon of the Company's financial forecast to March 2026 and extended forecast to March 2030, as reflected in investment grade credit ratings;
- the Board's flexible dividend policy; and
- the principal risks and uncertainties facing the Company and the mitigating controls, as described on pages 55 to 60, which are monitored by the Audit Committee, R&CSC and Board.

The Directors have chosen a period of nine years to March 2030 to assess the viability of the Company to align with the business planning process for the regulatory price review period to March 2025, and the next price review period to March 2030. Whilst the Directors do not believe that it is possible to test financial resilience beyond March 2025 to the same level of robust detail, given uncertainty of revenue and returns past this point, they have performed an assessment of viability beyond five years against an extended plan applying reasonable assumptions for the next price review which includes a sufficient rate of return to enable the Company to finance its functions.

The financial forecast has been stress tested under a number of plausible and severe adverse scenarios. The scenarios were selected by the Board after considering the principal risks and uncertainties facing the Company and the key economic and financial variables which could impact on the forecast. The combined impact of multiple scenarios has also been tested.

The stress tests were assessed in the context of NWL's overarching financial objective of maintaining prudent investment grade credit ratings from S&P and Moody's, and the Board's target of retaining regulatory gearing of around 70%. Whilst the viability statement relates specifically to NWL, both rating agencies take account of NWGL metrics in their methodologies, therefore, the impact on both NWL and NWGL financial plans have been considered.

The scenarios tested were:

- lower CPIH inflation, leading to reduced allowed revenue and RCV and therefore lower profitability and higher gearing;
- increased future borrowing rates for new and refinanced debt, increasing interest charges and reducing interest cover metrics;
- further increases in tax corporation rates, in addition to the planned increase to 25% in 2023, increasing tax payments and gearing;
- increased defined benefit pension scheme deficit and revised schedule of contributions, resulting in increased contribution payments and higher gearing under rating agency methodologies;
- impact of a credit rating downgrade, causing increased borrowing costs and potentially triggering refinancing of existing debt;
- higher operating and capital investment cost, causing increased net debt and gearing and reduced profitability;
- impact of a major incident crystallising one of the principal risks identified on **pages 55 to 60**, causing a significant cash outflow and increased net debt and gearing;
- a sustained deterioration in household revenue collection as a result of the economic impacts of COVID-19, reducing cash receipts leading to increased net debt and gearing; and
- reduced Outcome Delivery Incentive (ODI) rewards or increased ODI penalties as a result of performance not achieving targeted levels of performance, reducing future revenues.

A number of combined scenarios were also tested. These were determined by considering which scenarios were most likely to occur in combination. The combined scenarios tested were:

- adverse economic conditions, comprising reduced indexation, increased borrowing costs and increased tax rate;
- external impacts, comprising increased pension payments and credit rating downgrade; and
- shortfall in operational performance, comprising higher totex, major operational incident and reduced ODI rewards or increased penalties.

To the extent that any of these scenarios, in isolation or combination, would place retention of the Company's investment grade credit rating or liquidity position at risk, the Board would seek to take mitigating actions. This includes actions to support pension deficit repair payments utilising an asset-backed funding arrangement, efficient financing of new debt and application of the Board's flexible dividend policy. While outperformance of the FD cost allowance would also help mitigate such an outcome, the Directors do not consider this to be a key mitigating factor given the level of challenge and stretch implied by the FD.

The Board engaged Deloitte LLP to provide third party assurance, in the form of agreed upon procedures.

Fair, balanced and understandable

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 stakeholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Board has taken advice from the Audit Committee which has considered the process by which the Annual Report and Financial Statements has been produced as well as reviewing and commenting on the Report.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. 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 these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; 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 keeping adequate accounting records which 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also 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 responsible for the maintenance and integrity of the corporate and financial information on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board and signed on its behalf:

M Parker
Company Secretary
15 July 2021

Registered office
Northumbria House
Abbey Road
Pity Me
Durham
DH1 5FJ
Registered in England and Wales
Registered no: 02366703

Financial Statements

Income Statement

for the year ended 31 March 2021

	Note	2021 £'m	2020 £'m
Continuing operations			
Revenue	2	758.4	900.4
Operating costs	3	(563.4)	(541.6)
Operating profit		**195.0**	**358.8**
Finance costs	6	(111.0)	(112.4)
Profit before taxation		**84.0**	**246.4**
Taxation	7(a)	(13.9)	(97.8)
Profit for the year attributable to the shareholder of the Company		**70.1**	**148.6**

Statement of Comprehensive Income

for the year ended 31 March 2021

	Note	2021 £'m	2020 £'m
Profit for the year		70.1	148.6
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss) / gain	24	(54.2)	17.0
Deferred tax related to actuarial loss / gain	7(b)	10.3	0.5
Items that may be reclassified subsequently to profit and loss:			
Profit / (loss) on cash flow hedges taken to equity		2.7	(1.0)
Deferred tax on cash flow hedge profit / (loss)	7(b)	(0.5)	0.4
Other comprehensive (expense) / income		**(41.7)**	**16.9**
Total comprehensive income for the year attributable to the shareholder of the Company		**28.4**	**165.5**

Balance Sheet

at 31 March 2021 (registered number 02366703)

			Restated
	Note	**2021 £'m**	**2020[1] £'m**
Non-current assets			
Intangible assets	9	90.5	90.6
Property, plant and equipment	10	4,690.1	4,573.4
Financial investments	11	160.9	160.9
		4,941.5	**4,824.9**
Current assets			
Inventories	12	4.6	4.2
Trade and other receivables	13	221.7	244.4
Short-term cash deposits		-	27.0
Cash and cash equivalents		28.6	35.1
		254.9	**310.7**
Total assets		**5,196.4**	**5,135.6**
Current liabilities			
Trade and other payables	14	(163.4)	(170.0)
Borrowings	15	(66.1)	(71.7)
Provisions	17	(1.1)	(0.1)
		(230.6)	**(241.8)**
Non-current liabilities			
Borrowings	15	(2,895.6)	(2,916.0)
Provisions	17	(4.9)	(0.9)
Deferred tax liabilities	7(d)	(459.1)	(467.0)
Pension liability	24	(127.6)	(84.1)
Hedging instruments	19	(52.5)	(44.1)
Grants and deferred income	18	(522.1)	(506.1)
		(4,061.8)	**(4,018.2)**
Total liabilities		**(4,292.4)**	**(4,260.0)**
Net assets		**904.0**	**875.6**
Capital and Reserves			
Share capital	20	122.7	122.7
Cash flow hedge reserve		(8.3)	(10.5)
Profit and loss account		789.6	763.4
Equity attributable to the shareholder of the Company		**904.0**	**875.6**

[1]. The prior year balances have been restated to reflect a reclassification of bank overdrafts from Cash and cash equivalents to Borrowings in accordance with IAS 32 Financial Instruments (note 27).

Approved by the Board of Directors on 15 July 2021 and signed on their behalf by: **H Mottram**

Statement of Changes in Equity

for the year ended 31 March 2021

	Note	Share Capital £'m	Cash Flow Hedge Reserve £'m	Retained Earnings £'m	Total Equity £'m
At 1 April 2019		**122.7**	**(9.9)**	**662.3**	**775.1**
Profit for the year		-	-	148.6	148.6
Other comprehensive income and expense		-	(0.6)	17.5	16.9
Total comprehensive income and expense for the year		**-**	**(0.6)**	**166.1**	**165.5**
Dividends	8	-	-	(65.0)	(65.0)
At 31 March 2020		**122.7**	**(10.5)**	**763.4**	**875.6**
Profit for the year		-	-	70.1	70.1
Other comprehensive income and expense		-	2.2	(43.9)	(41.7)
Total comprehensive income for the year		**-**	**2.2**	**26.2**	**28.4**
Dividends	8	-	-	-	-
At 31 March 2021		**122.7**	**(8.3)**	**789.6**	**904.0**

Other comprehensive income and expense taken to the cash flow hedge reserve arises from the cumulative amount of gains or losses on hedging instruments, and associated deferred tax, taken directly to equity under the hedge accounting provisions of International Accounting Standard (IAS) 39.

Other comprehensive income and expense taken to retained earnings arises from actuarial revaluations, and associated deferred tax, on the Company's defined benefit pension scheme taken directly to equity.

Cash Flow Statement

for the year ended 31 March 2021

		Restated
	2021 £'m	2020[1] £'m
Operating activities		
Reconciliation of profit before interest to net cash flows from operating activities		
Profit before interest	195.0	358.8
Depreciation and impairment losses	147.8	143.3
Other non-cash charges and credits	(14.1)	(13.6)
Net credit for provisions, less payments	5.0	(0.1)
Difference between pension contributions paid and amounts recognised in the income statement	(12.4)	(9.6)
Capital grants received	12.9	14.9
Increase in inventories	(0.4)	(0.6)
Decrease / (increase) in trade and other receivables	19.5	(50.1)
(Decrease) / increase in trade and other payables	(6.1)	1.2
Cash generated from operations	**347.2**	**444.2**
Interest paid	(96.0)	(96.9)
Income taxes paid	(11.7)	(61.0)
Net cash flows from operating activities	**239.5**	**286.3**
Investing activities		
Interest received	2.5	3.3
Proceeds on disposal of property, plant and equipment	1.5	1.1
Short term cash deposits	27.0	(22.0)
Purchase of property, plant and equipment and intangible assets	(231.5)	(247.6)
Net cash flows from investing activities	**(200.5)**	**(265.2)**
Financing activities		
New borrowings	-	99.4
Net movement in overdraft	(5.2)	11.5
Dividends paid to equity shareholders	-	(65.0)
Repayment of borrowings	(36.0)	(46.0)
Payment of principal in respect of leases	(4.3)	(4.3)
Net cash flows from financing activities	**(45.5)**	**(4.4)**
(Decrease) / increase in cash and cash equivalents	(6.5)	16.7
Cash and cash equivalents at start of year	35.1	18.4
Cash and cash equivalents at end of year	**28.6**	**35.1**
Cash and cash equivalents at end of year	28.6	35.1
Short term cash deposits	-	27.0
Total cash, cash equivalents and short term cash deposits	**28.6**	**62.1**

Additional cash flow information is included in note 21.

1. The prior year balances have been restated to reflect a reclassification of bank overdraft movements from Cash and cash equivalents to Financing activities in accordance with IAS 32 Financial Instruments (note 27).

Notes to the Financial Statements
for the year ended 31 March 2021

1. Accounting Policies
NWL is incorporated in the UK under the Companies Act 2006. The Company is a private company limited by shares and is registered in England and Wales. The address of the Company's registered office is shown on page 106. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 9.

These Financial Statements are presented in pounds sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

These Financial Statements are separate financial statements. The Company is exempt from the preparation and delivery of consolidated financial statements under the terms of section 400 of the Companies Act 2006, because it is included in the Group Financial Statements of NWGL (see note 26).

(a) Basis of accounting
These Financial Statements have been prepared in accordance with FRS 101, incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015.
The Company adopted no new accounting standards in the period.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, standards not yet effective and related party transactions.

The Financial Statements have been prepared under the historical cost convention, with the exception of financial instruments held at fair value through profit and loss.

The Financial Statements have been prepared on a going concern basis, having considered the principal risks and uncertainties, which assumes that the Company will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 March 2021, the Company had net current assets of £24.3m (2020: net current assets of £68.9m). The Directors have reviewed cash flow requirements and other factors, as described in the going concern statement on page 103 of the Directors' Report. Accordingly, the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

(b) Revenue
Revenue, which excludes Value Added Tax, represents the income receivable in the ordinary course of business for services provided within the UK. In accordance with IFRS 15 Revenue from Contracts with Customers revenue is recognised as performance obligations to the customer are satisfied.

The Company's principal source of revenue is from water and wastewater charges to customers, which are recognised over the period which the services are provided. For volumetric charges to measured customers, revenue is recognised as the service is supplied. For measured charges which have not yet been billed, an accrual is made based on an estimate of consumption. Wholesale charges for non-household customers are estimated on the basis of market information provided by Market Operator Services Limited.

A secondary source of revenue is contributions to capital investment, particularly from developers.

For contributions related to the connection of new properties to the Company's networks, comprising infrastructure charges, new connection charges, requisitioned mains and sewers and adopted assets, the Company considers that these activities form a combined performance obligation that is not distinct from the ongoing provision of water and wastewater services through the new connection. On this basis, these contributions are recognised as deferred income and amortised to the income statement over the expected useful life of the connection, per note 1(f).

For other contributions to capital investment, most significantly mains and sewer diversions, the Company considers that the performance obligation is satisfied upon completion of the investment, which will typically be the point at which the associated asset is brought into use. On this basis, these contributions are recognised in full in the income statement upon satisfaction of the performance obligation. Contributions received before the performance obligation is satisfied are recorded as receipts in advance.

(c) Intangible assets
Intangible assets, primarily comprising computer software, are recognised at cost less accumulated amortisation and any provision for impairment. Computer software is amortised evenly over its estimated economic life of 2 to 25 years. Intangible assets in development are not amortised until commissioned. Amortisation is charged to the income statement through operating costs.

(d) Property, plant and equipment
Property, plant and equipment, including assets in the course of construction, comprise infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) and other assets (including properties, vehicles and above ground plant and equipment).

Purchased property, plant and equipment are included at cost less accumulated depreciation and any provision for impairment. Cost comprises the aggregate amount incurred and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Where assets are constructed by a developer and adopted by NWL at no cost to the Company, the assets are recognised in the balance sheet at their fair value on the date of the transfer and an equivalent value is recognised in deferred income, in accordance with IFRIC 18 Transfers of Assets from Customers. The fair value is based on the average cost to the Company of constructing an equivalent asset.

Upon their initial recognition, right-of-use assets are valued at the initial measurement of the corresponding lease liability (note 1(g)), less lease payments made at or before the commencement day, any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are presented as a separate line in note 10.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Freehold buildings	**30-60 years**
Operational structures, plant and machinery	**4-92 years**
Infrastructure assets (see below)	**4-200 years**
Fixtures, fittings, tools and equipment	**4-25 years**

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and, where adjustments are required, these are made prospectively.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Assets in the course of construction are not depreciated until commissioned.

Infrastructure assets
Infrastructure assets comprise a network of systems being mains and sewers, reservoirs, dams and sea outfalls.

Expenditure on infrastructure assets which enhances the asset base is treated as fixed asset additions while maintenance expenditure which does not enhance the asset base is charged as an operating cost.

Infrastructure assets are depreciated evenly to their estimated residual values over their estimated economic lives, which are principally as follows:

Dams and impounding reservoirs	**150 years**
Water mains	**100 years**
Sea outfalls	**60 years**
Sewers	**200 years**
Dedicated pipelines	**4-20 years**

(e) Financial investments
Financial investments are stated at their purchase cost, less provision for diminution in value (note 11).

(f) Grants and contributions

Grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Revenue grants are credited to the income statement in the period to which they relate.

Grants and contributions related to the connection of new properties to the Company's networks, comprising infrastructure charges, new connection charges, requisitioned mains and sewers and adopted assets, are recognised as deferred income and amortised to the income statement over the expected useful life of the connection, as explained in note 1(b).

Other grants and contributions to capital investment, most significantly mains and sewer diversions, are recognised in full in the income statement upon satisfaction of the performance obligation to the customer, which is the point at which the associated asset is brought into use. Up to this point, any contributions received are reported as receipts in advance.

(g) Leases

The Company assesses whether a contract is or contains a lease, at the inception of a new contract and recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented within Borrowings in the Balance sheet and as a separate line within note 15.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in operating costs in the Income Statement.

(h) Inventories

Inventories are stated at cost less any provision necessary to recognise damage and obsolescence. Inventory is charged at average cost upon use.

(i) Pension costs

The Company is the principal employer of the NWPS, which has both a defined benefit section and a defined contribution section.

The cost of providing benefits under the defined benefit section of the Scheme is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight-line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs. Net interest is calculated by applying the discount rate to the net defined asset or liability.

The service cost is disclosed in manpower costs and the net interest expense is disclosed within finance costs.

Actuarial gains and losses on experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur in the statement of comprehensive income. The costs of the defined contribution section are charged to the income statement in the period they arise.

(j) Taxation

Current tax

Current tax liabilities are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted, or substantively enacted, at the balance sheet date.

Deferred tax is recognised in the income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

(k) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the date of transaction. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange gains or losses are recognised in the profit and loss account in the period incurred.

(l) Research and development

Research and development expenditure is charged to the income statement in the period in which it is incurred.

(m) Derivative financial instruments
The Company utilises interest and inflation rate swaps, gilt locks and forward exchange contracts as derivative financial instruments.

A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Company in line with the Group's risk management policies. Derivative financial instruments are stated at their fair value.

Hedge accounting is employed in respect of those derivative financial instruments fulfilling the requirements for hedge accounting as prescribed under IFRS 9. The Company has not applied hedge accounting criteria under IFRS 9 on a retrospective basis. Existing derivative financial instruments, if eligible for hedge accounting, continue to apply the hedging criteria under the provisions of IAS 39. Any new instruments will apply IFRS 9.

Derivative financial instruments are measured at fair value, which is considered to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction reflecting the credit risk of the counterparties in the principal (or most advantageous) market under market conditions as at the balance sheet date.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps and inflation swaps are determined by reference to market values for similar instruments.

Hedging transactions undertaken by the Company are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in currency cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement.

In relation to cash flow hedges to hedge firm currency commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in the cash flow hedge reserve and the ineffective portion is recognised in the income statement. When the hedged firm commitment results in the recognition of a non-financial asset or a non-financial liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in the cash flow hedge reserve are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in the cash flow hedge reserve are transferred to the income statement in the same periods in which the hedged firm commitment affects the income statement.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in the cash flow hedge reserve is kept in the cash flow hedge reserve until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the cash flow hedge reserve is transferred to the income statement.

(n) Interest bearing loans and borrowings
All loans and borrowings are initially stated at the amount of the net proceeds, being fair value of the consideration received net of issue costs associated with the borrowing. Finance costs (including issue costs) are taken to the income statement over the term of the debt at a constant rate on the balance sheet carrying amount. The carrying amount is increased by the finance charges amortised and reduced by payments made in respect of the accounting period. The carrying amount of index linked borrowings increases annually in line with the relevant RPI, with the accretion being charged to the income statement as finance costs payable. Other borrowing costs are recognised as an expense when incurred.

Realised gains and losses that occur from the early termination of loans and borrowings are taken to the income statement in that period.

Net debt is the sum of all loans and borrowings less cash and cash equivalents, short-term cash deposits, financial investments and loans receivable.

(o) Bad debt provisioning
The bad debt provision is calculated by applying a range of percentages to debt of different ages. These percentages also vary between different categories of debt. Higher percentages are applied to those categories of debt which are considered to be of greater risk and also to debt of greater age.

(p) Borrowing costs
Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial time to prepare for its intended use are capitalised while the asset is being constructed as part of the cost of that asset.

Capitalisation ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalisation is suspended. When construction occurs piecemeal, and use of each part ceases upon substantial completion of that part, a weighted average cost of borrowings is used.

(q) Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. Actual results may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The significant accounting judgements were:

- the assessment of uncertain tax provisions, which are assessed on advice from independent tax advisers; and
- the asset lives assigned to property, plant and equipment, details of which can be found in note 1(d) above.

The significant accounting estimates were:

- the estimation of income for measured water and sewerage services supplied to household customers but not billed at the end of the financial period. Consumption is billed in arrears on a six-monthly cycle. Revenue is estimated and accrued using a defined methodology based upon historical usage and the relevant tariff per customer. A variation of 5% in the estimated consumption would change revenue by £2.1m;
- the estimation of income for measured water and sewerage services supplied to non-household customers based on estimated consumption. Non-household income is billed to the relevant retailer under the terms of the Wholesale Contract and may be either in advance or in arrears. Revenue billed in arrears is based upon wholesale market settlement reports which include an estimate for consumption since the most recent meter reading, adjusted for any additional information obtained after a settlement report has been run. A variation of 5% in the estimated consumption would change revenue by £0.4m;
- those assumptions used in arriving at the defined benefit pension scheme assets and liabilities under IAS 19. These key assumptions and their possible impact are disclosed in note 24; and
- the doubtful debt provision, reported in note 13, which is determined by estimating expected credit losses based on the Company's historical experience of irrecoverable debts. Debt is segmented according to the age of the debt, payment history and type of debt (eg. current or previous occupier). Higher provisioning percentages are applied to categories of debt which are considered to be of greater risk, including those with a poor payment history as well as to those of greater age. Bad debt provisioning rates are reviewed annually to reflect the latest collection performance data from the Company's billing system. Potential impacts of forward-looking macro-economic factors on collectability are also considered. A reduction of 0.1% in the long-term collection rate would increase the provision by £5.3m.

(r) Transition to new accounting standards in the period

The Company adopted no new accounting standards in the period.

2. Revenue and Segmental Information

The Directors consider that the Company has a single class of business, the provision of water and wastewater services. All revenue is generated from within the United Kingdom.

Appointed business revenue is generated from the regulated activities of the Company, defined in its licence of appointment, necessary to fulfil its duties as a water and sewerage undertaker under the Water Industry Act of 1991.

Non-appointed revenue is generated from the non-regulated activities of the Company.

	2021			2020		
	Household £'m	Non Household £'m	Total £'m	Household £'m	Non Household £'m	Total £'m
Wholesale Water	315.4	76.0	391.4	346.8	95.3	442.1
Wholesale Wastewater	183.4	59.0	242.4	246.4	78.1	324.5
Retail	55.8	-	55.8	59.8	-	59.8
	554.6	**135.0**	**689.6**	**653.0**	**173.4**	**826.4**
Other appointed business			34.3			30.9
Total appointed business			**723.9**			**857.3**
Non appointed business			34.5			43.1
Total revenue			**758.4**			**900.4**

3. Operating Costs

Auditor's remuneration in respect of the statutory audit of the Financial Statements initially accrued amounted to £158k (2020: £154k), including fees for a financing subsidiary, Northumbrian Water Finance plc (NWF), of £7k (2020: £7k). Fees of £70k (2020: £78k) were incurred in respect of the APR, including the audit of the Regulatory Accounting Statements, and agreed upon procedures in respect of additional regulatory information, the statement of sufficiency of financial resources and facilities and financial resilience stress testing.

Fees of £15k (2020: £14k) were incurred for non-audit services comprising provision of assurance on third party contracts.

	2021 £'m	2020 £'m
Materials and consumables	20.4	21.0
Employee costs (note 5)	151.7	150.1
Own work capitalised	(45.0)	(43.7)
Costs of research and development	0.7	0.8
Bad debt charge	17.4	21.7
Inventories recognised as an expense	3.2	2.8
Other operating costs	268.5	246.6
Depreciation of property, plant and equipment	136.0	134.0
Amortisation of intangible assets	11.8	9.3
Profit on disposal of property, plant and equipment	(1.3)	(1.0)
Total operating costs	**563.4**	**541.6**

4. Directors' Emoluments

(a) Directors' remuneration

The remuneration of the Directors of the Company was as follows:

	2021 £'000	2020 £'000
Emoluments (including benefits in kind)	1,190	1,482

For those Directors holding office with both NWL and NWGL, or contributing significantly to the day to day operations of NWGL, costs are apportioned between the companies to reflect the level of activity carried out for each company. This note reflects only the proportion of costs charged to NWL.

During the year, none of the Directors were members of a defined benefit section of the Scheme, where the Company makes contributions towards the cost. In the prior year one Director was a member of a defined benefit section of the Scheme but stopped being an active member before the year end.

One of the Directors was a member of a defined contribution section of the Scheme, where the Company makes contributions towards the cost, but left the Company during the year (2020: 1).

The Directors' remuneration policy and a detailed report showing total remuneration for each Director, for the year to 31 March 2021, are set out in the Remuneration Committee Report on **pages 87 to 99** of the Governance Report.

(b) Highest paid Director

The amounts for remuneration shown in note 4(a) include the following in respect of the highest paid Director:

	2021 £'000	2020 £'000
Emoluments (including benefits in kind)	628	583

The highest paid Director left the defined contribution section of the NWPS at the beginning of the year ended 31 March 2017, therefore no payments were made to the Scheme in either the current or prior year.

5. Employee Information

The total employment costs of all employees (including Directors) were as follows:

	2021 £'m	2020 £'m
Gross costs charged to the profit and loss account:		
Wages and salaries	83.8	82.9
Social security costs	9.1	9.1
Other pensions costs	19.2	20.2
	112.1	**112.2**
Costs recharged to other Group companies		
Wages and salaries	2.1	2.3
	2.1	**2.3**
Net costs charged to the profit and loss account		
Wages and salaries	81.7	80.6
Social security costs	9.1	9.1
Other pensions costs	19.2	20.2
	110.0	**109.9**
Costs charged to capital schemes		
Wages and salaries	31.6	30.3
Social security costs	3.4	3.2
Other pensions costs	6.7	6.7
	41.7	**40.2**
Total employee costs	**151.7**	**150.1**

The average monthly number of employees during the year was made up as follows:

	2021	2020
Water and waste water services	1,232	1,295
Customer services and meter reading	669	643
Other regulated activities	1,093	1,081
Non regulated activities	91	89
	3,085	**3,108**

6. Net Finance Costs

	2021 £'m	2020 £'m
Finance costs payable:		
Bank overdrafts and loans	9.6	11.3
Receivable in respect of derivatives	(4.0)	(4.5)
Payable to subsidiary Group company	85.8	85.7
Payable to other Group company	-	0.1
Amortisation of discount, fees, loan issue costs and other financing items	2.0	2.1
Accretion on index linked bonds	15.2	25.9
Interest cost on pension plan obligations	1.7	2.3
Obligations under leases	2.5	2.6
	112.8	**125.5**
Less amounts capitalised on qualifying assets	(10.8)	(10.6)
	102.0	**114.9**
Fair value losses on derivative financial instruments	11.1	0.7
Total finance costs payable	**113.1**	**115.6**
Finance income receivable:		
Bank deposits	(0.1)	(0.2)
Receivable from Group companies	(2.0)	(3.0)
Total finance costs receivable	**(2.1)**	**(3.2)**
Net finance costs payable	**111.0**	**112.4**

7. Taxation

(a) Tax on profit

	2021 £'m	2020 £'m
Current tax:		
UK current income tax charge at 19% (2020: 19%)	11.0	26.7
Adjustments in respect of prior periods	1.5	(7.5)
Payable in respect of group relief for the year	1.1	15.2
Adjustments in respect of prior period group relief	(1.6)	4.5
Total current tax	**12.0**	**38.9**
Deferred tax:		
Origination and reversal of temporary differences in the year at 19% (2020: 19%)	3.5	4.7
Impact of increase in rate of UK corporation tax	-	51.9
Adjustments in respect of prior periods	(1.6)	2.3
Total deferred tax	**1.9**	**58.9**
Tax charge in the income statement	**13.9**	**97.8**

The rate of UK corporation tax for the current year was 19%. Current and deferred tax have both been provided at this rate. Changes to the rate of tax announced by the government on 3 March 2021 do not affect these Financial Statements but are referred to in 7(e) below.

Tax losses have been provisionally claimed as group relief from other group companies in the current year, for which payment is being made at the full rate of tax.

(b) Tax relating to items charged outside the income statement

	2021 £'m	2020 £'m
Deferred tax:		
Actuarial (losses) / gains on pension scheme	(10.3)	3.2
Impact of increase in rate of UK corporation tax	-	(3.7)
Financial instruments	0.5	(0.2)
Impact of increase in rate of UK corporation tax	-	(0.2)
Tax credit in the statement of comprehensive income	**(9.8)**	**(0.9)**

(c) Reconciliation of the tax charge

	2021 £'m	2020 £'m
Profit before tax	**84.0**	**246.4**
Profit multiplied by standard rate of corporation tax of 19% (2020: 19%)	16.0	46.8
Effects of:		
Expenses not deductible for tax purposes	0.1	0.2
Non-taxable gains and amortisation of capital sums	(1.6)	(1.5)
Depreciation in respect of non-qualifying items	1.1	1.2
Impact on deferred tax of change in current tax rate	-	51.9
Adjustments in respect of prior periods	(1.7)	(0.8)
Transfer pricing adjustments	(0.8)	(0.8)
Balancing payment payable	0.8	0.8
Total tax charge	**13.9**	**97.8**

The effective rate of tax for the year was 16.5% (2020: 39.7%). The decrease of 23.2% is mainly explained by the impact of the restatement of deferred tax in the previous year from 17% to 19% which accounts for 21.0% of the reduction.

(d) Deferred tax

	Accelerated tax depreciation £'m	Deferred income £'m	Retirement benefit obligations £'m	Fair value hedging instruments £'m	Business combinations £'m	Other £'m	Total £'m
At 1 April 2019	**469.3**	**(48.1)**	**(18.6)**	**(7.2)**	**5.3**	**8.3**	**409.0**
Charge/(credit) in the income statement	64.6	(9.6)	2.9	(0.7)	0.5	1.2	58.9
Credit in other comprehensive income	-	-	(0.5)	(0.4)	-	-	(0.9)
At 31 March 2020	**533.9**	**(57.7)**	**(16.2)**	**(8.3)**	**5.8**	**9.5**	**467.0**
Charge / (credit) in the income statement	6.1	(4.3)	2.1	(2.1)	(0.2)	0.3	1.9
(Credit) / charge in other comprehensive income	-	-	(10.3)	0.5	-	-	(9.8)
At 31 March 2021	**540.0**	**(62.0)**	**(24.4)**	**(9.9)**	**5.6**	**9.8**	**459.1**

(e) Factors that may affect future tax charges
In its Budget Statement on 3 March 2021, the UK government announced an increase in the corporation tax rate from 19% to 25% with effect from 1 April 2023. The increase is included in Finance Act 2021 which received Royal Assent on 10 June 2021. These Financial Statements are unaffected by the change as the legislation was neither enacted nor 'substantively enacted' by the balance sheet date.

In accordance with IAS 12, it will be necessary to restate the Company's deferred tax liabilities with effect from 1 April 2021 to take account of the higher tax rate that will apply to the reversal of temporary differences after 31 March 2023. The Company estimates this will result in its deferred tax liabilities at 31 March 2021 of £459.1m rising to £606.0m, recognising that some temporary differences will reverse at 19% in the next two years before the rate increase comes into force. The restatement will be reflected in the financial statements for the year ended 31 March 2022.

The Company expects to continue to incur high levels of capital expenditure during the remainder of the 2020-25 regulatory review period which should result in claims for tax reliefs in excess of depreciation.

A temporary increase in the rate of capital allowances was announced by the UK government on 3 March 2021 which is now included in Finance Act 2021. Qualifying expenditure incurred in the two years ended 31 March 2023 will attract allowances of 130% (compared to the normal 18%) in the case of assets with an economic life of less than 25 years, and 50% (compared to the normal 6%) in the case of assets with an economic life of 25 years or more. The Company is considering the application of the rules governing these higher allowances, in particular the requirement that they only apply to expenditure contracted for on or after 3 March 2021.

8. Dividends

	2021 £'m	2020 £'m
Equity:		
Dividends paid:		
Final dividend paid for the year ended 31 March 2020 of £nil (year ended 31 March 2019: 53.00p) per share on an aggregated basis	-	65.0
Total dividends paid in the year	**-**	**65.0**

Dividend Policy
The Board has a policy which takes into account the principle of incentive based price cap regulation, including operating and investment performance. When declaring dividends, the Directors consider the Company's five-year plan and give due consideration to business performance, the prospects of the Company and the principal risks facing the business.

Specifically, the Board determines the level of dividend declared by reference to:

- the Company's ability to finance its functions,
- the Company's cumulative financial performance and past outperformance; and
- maintaining the Company's investment grade credit ratings.

The Directors also have regard to:

- how the Company has satisfied its statutory and regulatory obligations, performed against the performance commitments in the final determination and the level of service provided to its customers; and
- employees' interests and, specifically, compliance with the pension deficit repair plan agreed with the Pension Trustee in respect of the NWPS, as submitted to the Pensions Regulator.

Amendment to Dividend Policy
The dividend policy has been updated to reflect the consideration given to the Company's statutory and regulatory obligations and performance commitments in the final determination.

Application of Policy

No dividends were proposed, approved or paid in respect of the year ended 31 March 2020 and no dividends were approved or paid during the year ended 31 March 2021. In deciding this, the Board took into account the impact of the PR19 FD on the financial position of the Company over a five year time horizon, the uncertainty surrounding the CMA redetermination process and the need to retain financial resilience in order to be able to deliver the Company's Business Plan commitments for stakeholders.

After the balance sheet date, the Board approved the payment of a final dividend of £123.3m in respect of the year ended 31 March 2021. In reaching this decision, the Board took account of the Company's financial position at 31 March 2021, cumulative financial performance over the two years since the previous dividend payment and the impact of the CMA redetermination on the five year plan which remained compatible with investment grade credit ratings. The Board also took into account the principal risks facing the business, performance against statutory obligations and regulatory commitments, levels of customer service and C-MeX performance, positive ongoing employee engagement and payments made under the agreed schedule of contributions for the NWPS.

After the balance sheet date, the Board also approved the payment of a special dividend of £159m from the non-appointed business. The purpose of the special dividend was to enable NWGL to use the dividend proceeds to settle a legacy £159m intercompany loan arrangement with the Company (see note 11), following discussions with Ofwat. The outcome of the special dividend and loan settlement transactions was cash neutral to the Company.

9. Intangible Assets

	Software £'m	Assets in development £'m	Total £'m
Cost:			
At 1 April 2020	130.6	21.7	152.3
Additions	-	11.7	11.7
Transfers	27.7	(27.7)	-
At 31 March 2021	**158.3**	**5.7**	**164.0**
Amortisation:			
At 1 April 2020	61.7	-	61.7
Charge for the year	11.8	-	11.8
At 31 March 2021	**73.5**	**-**	**73.5**
Carrying value:			
At 31 March 2021	84.8	5.7	90.5
At 31 March 2020	68.9	21.7	90.6

Cumulative borrowing costs capitalised in the cost of intangible assets amount to £6.1m (2020: £5.2m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.25% (2020: 4.43%).

10. Property, plant and equipment

	Freehold land and buildings £'m	Infrastructure assets £'m	Operational, structures, plant and machinery £'m	Fixtures, fittings, tools and equipment £'m	Assets in the course of construction £'m	Total £'m
Cost:						
At 1 April 2020	164.0	2,969.3	3,166.0	230.9	246.2	6,776.4
Additions / adjustments	(0.4)	15.2	0.7	-	237.3	252.8
Schemes commissioned	3.6	92.4	134.8	15.4	(246.2)	-
Disposals	(0.1)	(3.4)	(2.5)	-	-	(6.0)
At 31 March 2021	**167.1**	**3,073.5**	**3,299.0**	**246.3**	**237.3**	**7,023.2**
Depreciation:						
At 1 April 2020	67.3	433.4	1,507.2	195.1	-	2,203.0
Charge for the year	4.0	29.2	94.7	8.1	-	136.0
Disposals	(0.1)	(3.4)	(2.4)	-	-	(5.9)
At 31 March 2021	**71.2**	**459.2**	**1,599.5**	**203.2**	**-**	**2,333.1**
Carrying value:						
At 31 March 2021	95.9	2,614.3	1,699.5	43.1	237.3	4,690.1
At 31 March 2020	96.7	2,535.9	1,658.8	35.8	246.2	4,573.4
Right of Use Assets included above:						
Additions / adjustments	(0.4)	-	4.5	-	-	4.1
Depreciation charge for the year	0.4	0.5	3.9	-	-	4.8
Carrying value at 31 March 2021	2.4	42.8	11.2	-	-	56.4
Carrying value at 31 March 2020	3.2	43.3	10.6	-	-	57.1

Operational structures, plant and machinery include an element of land dedicated to those assets. It is not possible to separately identify the value of all land assets.

Cumulative borrowing costs capitalised in the cost of property, plant and equipment amount to £65.4m (2020: £55.5m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.25% (2020: 4.43%).

11. Financial Investments

	Loans to Group Companies £'m
At 1 April 2020 and 31 March 2021	160.9

(a) Loans to Group Companies

In May 2004, the Company made a loan of £159.0m to Northumbrian Services Limited, maturing in January 2034. Following a restructuring of the NWGL group, this loan was reassigned to NWGL in March 2016 at a variable interest rate of LIBOR plus 1% calculated on twice yearly payment dates.

After the balance sheet date, this legacy intercompany loan arrangement was fully settled.

In May 2004, the Company made a loan of £1.5m to Bakethin Holdings Limited, maturing in January 2034. The interest on the loan is capitalised and at 31 March 2021 the balance was £1.9m (2020: £1.9m).

(b) Subsidiaries

The Company's interests in subsidiaries at 31 March 2021 were as follows:

Name of undertaking	Country of incorporation or registration and operation	Description of shares held	Proportion of nominal value of issued shares held by Company (%)	Business activity
Northumbrian Water Finance plc	England and Wales	Ordinary shares of £1	100	Holding of finance instruments
Reiver Finance Limited	England and Wales	Ordinary shares of £1	100	Special purpose financing vehicle
Reiver Holdings Limited	England and Wales	Ordinary shares of £1	100	Holding company

The registered office of all subsidiaries listed above is Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ. Holdings are direct other than Reiver Finance Limited which is indirect.

The Company also has two quasi-subsidiary special purpose entities, Bakethin Holdings Limited, which is wholly owned by Bakethin Charitable Trust, and Bakethin Finance Plc, which is a wholly owned subsidiary of Bakethin Holdings Limited. The principal activity of Bakethin Finance Plc is as a special purpose financing vehicle.

The registered office of the two quasi-subsidiaries is c/o Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, United Kingdom, EC2R 7AF.

12. Inventories

	2021 £'m	2020 £'m
Raw materials and consumables	4.6	4.2

13. Trade and other Receivables

	2021 £'m	2020 £'m
Trade receivables	216.4	205.2
Doubtful debt provision	(111.0)	(104.4)
Income tax recoverable	8.1	11.2
Amounts owed by other Group companies	2.8	2.9
Other receivables	16.1	15.7
Prepayments and accrued income	89.3	113.8
	221.7	244.4

Amounts owed by other Group companies includes interest of £0.1m (2020: £0.1m) in respect of the financial investment of £159.0m in note 11(a). This loan has a variable interest rate of LIBOR plus 1% calculated on twice yearly payment dates and was fully settled after the Balance Sheet date as described in note 11(a). The remaining amounts owed by other Group companies include £2.3m due from NWGL (2020: £2.4m) and £0.4m (2020: £0.4m) due from fellow subsidiary companies, which are due on demand with no fixed repayment date and bear no interest.

14. Trade and other Payables

	2021 £'m	2020 £'m
Trade payables	20.4	29.1
Amounts owed to other Group companies	4.8	7.4
Taxation and social security	3.3	3.1
Other payables	31.8	33.5
Accruals and deferred income	103.1	96.9
	163.4	170.0

Included in amounts owed to other Group companies is £3.1m (2020: £5.9m) payable in respect of tax losses surrendered to the Company. The remaining amount of £1.7m (2020: £1.5m) is owed to NWGL and is due on demand with no fixed repayment date and bears no interest.

15. Borrowings

			Restated
	Note	2021 £'m	2020[1] £'m
Current:			
Bank overdrafts		25.2	30.4
Current instalments due on external borrowings	15(a)	35.7	36.9
Current instalments due on internal borrowings	15(b)	0.2	-
Current instalments due on leases	16	5.0	4.4
		66.1	**71.7**
Non-current:			
Non-current instalments due on external borrowings	15(a)	470.8	501.9
Non-current instalments due on internal borrowings	15(b)	2,367.6	2,355.5
Non-current instalments due on leases	16	57.2	58.6
		2,895.6	**2,916.0**

1. The prior year balances have been restated to reflect a reclassification of bank overdrafts from Cash and cash equivalents to Borrowings in accordance with IAS 32 Financial Instruments (note 27).

(a) External borrowings

Bank overdrafts are repayable on demand and bear interest at a rate of 1.01%.

Loans wholly repayable within five years amount to £216.8m (2020: £18.6m).

Loans not wholly repayable within five years amount to £289.7m (2020: £520.2m) and bear interest rates in the range 1.47% to 5.35%.

The fair value loss on the Company's outstanding interest rate and RPI swaps in the year to 31 March 2021 was £8.5m (2020: loss of £2.9m) in relation to interest rate swaps with a notional principal of £350.0m (2020: £350.0m).

(b) Internal borrowings

NWF issued £200m and £150m Guaranteed Eurobonds in February 1998 and September 2001 respectively, maturing February 2023, with an annual coupon of 6.875%. The issues were guaranteed by the Company who received the issue proceeds by way of inter-company loans of £194.2m and £163.2m respectively. Finance costs allocated during the year amounted to £0.2m (2020: £0.2m). Amortisation of loan issue receipts during the year amounted to £0.3m (2020: £0.3m).

NWF issued £250m and £100m Guaranteed Eurobonds in December 2002 and December 2004, maturing April 2033 with an annual coupon of 5.625%. Both issues were guaranteed by the Company who received the issue proceeds by way of inter-company loans of £246.6m and £100.8m respectively. Finance costs allocated during the year amounted to £0.2m (2020: £0.2m).

NWF issued £150m Guaranteed Index Linked Eurobonds in September 2005, maturing July 2036, with a real coupon of 2.033%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £149.1m. Indexation accretion during the year amounted to £3.7m (2020: £6.2m). Finance costs allocated during the year amounted to £0.2m (2020: £0.2m).

NWF issued £60m Guaranteed Index Linked Eurobonds in January 2006, maturing January 2041, with a real coupon of 1.6274%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £60.0m. Indexation accretion during the year amounted to £1.5m (2020: £2.4m).

NWF issued two £100m Guaranteed Index Linked Eurobonds in June 2006 with real coupons of 1.7118% and 1.7484% and with maturities of 2049 and 2053 respectively. Both issues were guaranteed by the Company who received the issue proceeds by way of two inter-company loans of £100.0m. Indexation accretion during the year amounted to £4.9m (2020: £8.1m).

NWF issued £360m Guaranteed Eurobonds in January 2012, maturing January 2042, with an annual coupon of 5.125%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £339.3m. Finance costs allocated during the year amounted to £0.7m (2020: £0.7m).

NWF issued £300m Guaranteed Eurobonds in October 2016, maturing October 2026, with an annual coupon of 1.625%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £297.6m. Finance costs allocated during the year amounted to £0.2m (2020: £0.2m).

NWF issued £300m Guaranteed Eurobonds in October 2017, maturing October 2027, with an annual coupon of 2.375%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £298.2m. Finance costs allocated during the year amounted to £0.3m (2020: £0.3m).

NWF issued £100m Guaranteed Index Linked Private Placement notes in October 2019 with a coupon of CPI plus 0.242%, maturing October 2039. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £99.6m. Indexation accretion during the year amounted to £0.5m (2020: £0.5m).

A further £0.2m (2020: £nil) is owed to NWGL in respect of an overnight borrowing and incurs interest at a rate of 1.1%.

16. Leases

The Company holds leases in respect of land, buildings and infrastructure assets, and to acquire plant, machinery and motor vehicles.

Land and building rent reviews are triggered by the lessor and typically take place every 3 to 5 years, at which point there may be an increase in rental payments. There are no purchase options or escalation clauses in respect of these leases and the terms of renewal are governed by Landlord and Tenant legislation. There are no restrictions imposed by these lease arrangements. There are no contingent rents, escalation clauses or material renewal or purchase options. The leases impose no restrictions in respect of dividends or raising additional debt. The obligations are as follows:

	2021 £'m	2020 £'m
Maturity analysis:		
Year 1	5.0	4.4
Year 2	3.6	3.7
Year 3	2.9	3.0
Year 4	2.3	2.2
Year 5	1.9	1.5
Onwards	46.5	48.2
	62.2	**63.0**

17. Provisions

	£'m
At 1 April 2020	1.0
Transferred from accruals	4.3
Additional provision in the year	0.8
Utilised during the year	(0.1)
At 31 March 2021	**6.0**
Analysed as:	**-**
Current	1.1
Non-current	4.9

In the ordinary course of business, the Company is sometimes subject to claims and potential litigation, whether from regulatory bodies, individuals or particular groups, related to one off matters. The Directors consider that, where it is possible to be estimated, a reasonable and appropriate position has been taken in reflecting such items in these Financial Statements in the note above.

The Directors have transferred some items previously reported as accruals into provisions, reflecting the uncertainty of their nature and the time period over which they are expected to be resolved.

Provisions reflected in the balance sheet include outstanding pension liabilities for pensions that have been awarded on a discretionary basis, mainly to former employees of water companies which have since merged with the Company. These pension liabilities have been calculated by an independent actuary, using the same actuarial assumptions as applied to the defined benefit pension scheme, and are expected to be paid over the remaining lives, which is approximately seven years.

The balance also includes estimated liabilities arising from legal processes relating to a Health and Safety Executive investigation, historical pollution incidents and disputed rent reviews. In each case the timing of settlement is uncertain as a result of backlogs in the legal process due to the pandemic. The value of the provisions for each liability has not been disclosed due to the commercially sensitive nature of these legal matters.

It is not currently possible to estimate the financial effect and likely timing of any associated outflow of some other matters, given that some are in early stages of discussion, the limited likelihood of the claims against the Company being successful, or the potential range of possible outcomes, and accordingly no provision has been made in the Financial Statements. No reasonably possible financial outcome that would be significant to the Financial Statements has been identified in relation to these remaining matters at the date of the issue of these Financial Statements.

18. Grants and Deferred Income

	Capital grants and contributions £'m	Proceeds from Kielder securitisation £'m	Total £'m
At 1 April 2020	**406.5**	**99.6**	**506.1**
Additions	28.8	-	28.8
Amortised during the year	(5.7)	(7.1)	(12.8)
At 31 March 2021	**429.6**	**92.5**	**522.1**

The Kielder securitisation involved the assignment of the right to the future income stream associated with the Kielder WROA until 2034 to Reiver Finance Limited, a subsidiary company, in return for consideration of £212.1m. This capital sum is amortised to the income statement of the Company over the life of the assignment.

19. Financial Instruments

	2021 £'m	2020 £'m
Financial liabilities / (assets) that are designated and effective as hedging instruments carried at fair value:		
Interest rate swaps	10.6	13.2
Foreign exchange contracts	(0.2)	(0.1)
Financial liabilities carried at fair value through profit and loss:		
Inflation swaps	42.1	31.0
	52.5	**44.1**

At 31 March 2021, the Company held the following interest rate swaps, designated as hedges of future interest cash flows, used to convert variable rate interest payments to a fixed rate basis:

Notional amount	Start date	Termination date	Fixed rate
£100.0m	15 September 2008	15 March 2022	4.79%
£150.0m	15 October 2015	15 October 2025	2.36%

At 31 March 2021, the Company held the following inflation swaps, designated as hedges of future interest cash flows, used to convert fixed rate interest payments to an index-linked basis:

Notional amount	Start date	Termination date	Index linked rate
£150.0m	15 October 2015	15 October 2025	(0.42%)
£100.0m	22 June 2017	22 June 2027	(1.10%)

At 31 March 2021, the Company held the following forward exchange contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

Currency bought	Maturity	Exchange rate	Transaction value £'m
USD 317,750	15 July 2021	1.3211	0.3
USD 317,750	15 April 2021	1.3211	0.3
USD 274,250	15 October 2021	1.3211	0.2
USD 159,875	4 January 2022	1.3211	0.1
USD 274,250	18 January 2022	1.3211	0.2
USD 274,250	19 April 2022	1.3211	0.2
USD 274,250	15 July 2022	1.3211	0.2
USD 307,750	17 October 2022	1.3211	0.2
USD 159,875	3 January 2023	1.3211	0.1
USD 307,750	17 January 2023	1.3211	0.2
USD 307,750	17 April 2023	1.3211	0.2
USD 307,750	17 July 2023	1.3211	0.2
USD 338,750	16 October 2023	1.3211	0.3
USD 338,750	16 January 2024	1.3211	0.3
USD 338,750	15 April 2024	1.3211	0.3
USD 338,750	15 July 2024	1.3211	0.3
USD 403,250	15 October 2024	1.3211	0.3
USD 403,250	15 January 2025	1.3211	0.3
USD 403,250	15 April 2025	1.3211	0.3
USD 403,250	15 July 2025	1.3211	0.3
USD 421,750	15 October 2025	1.3211	0.3
			5.1

At 31 March 2020, the Company held the following forward exchange contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

Currency bought	Maturity	Exchange rate	Transaction value £'m
EUR 2,980	9 April 2020	1.0932	-
USD 1,240,404	30 April 2020	1.4293	0.8
USD 1,245,000	17 April 2020	1.2620	1.0
			1.8

20. Share Capital

	2021 £'m	2020 £'m
Authorised:		
122,650,000 Ordinary Shares of £1 each (31 March 2020: 122,650,000)	122.7	122.7
Allotted, called-up and fully paid:		
122,650,000 Ordinary Shares of £1 each (31 March 2020: 122,650,000)	122.7	122.7

NWL is a company limited by shares.

21. Additional cash flow information

Analysis of net debt as at 31 March 2021:

	Note	At 1 April 2020 £'m	Cash flow £'m	Other non-cash movements £'m	At 31 March 2021 £'m
Cash and cash equivalents		35.1	(6.5)	-	28.6
Loans receivable	11	160.9	-	-	160.9
Short term cash deposits		27.0	(27.0)	-	-
Bank overdrafts	15	(30.4)	5.2	-	(25.2)
Loans payable	15	(2,894.3)	36.0	(16.0)	(2,874.3)
Leases	16	(63.0)	4.3	(3.5)	(62.2)
		(2,764.7)	**12.0**	**(19.5)**	**(2,772.2)**

Analysis of net debt as at 31 March 2020:

	Note	At 1 April 2019 £'m	Cash flow £'m	Other non-cash movements £'m	At 31 March 2020 £'m
Cash and cash equivalents		18.4	16.7	-	35.1
Loans receivable	11	160.9	-	-	160.9
Short term cash deposits		5.0	22.0	-	27.0
Bank overdrafts	15	(18.9)	(11.5)	-	(30.4)
Loans payable	15	(2,814.1)	(53.4)	(26.8)	(2,894.3)
Leases	16	(60.9)	4.3	(6.4)	(63.0)
		(2,709.6)	**(21.9)**	**(33.2)**	**(2,764.7)**

22. Financial commitments

(a) Capital commitments

	2021 £'m	2020 £'m
Contractual commitments for the acquisition of property, plant and equipment and intangible assets	74.1	120.2

In addition to these commitments, the Company has longer term expenditure plans, including investment to deliver business outcomes, maintain the health of the asset base and provide for new demand and growth in the regulated part of the business.

(b) Foreign currency commitments

At 31 March 2021 the Company held forward foreign exchange contracts of £5.1m (2020: £1.8m) for the purpose of hedging the foreign currency risk of committed future purchases.

(c) Power purchase agreement

In 2018/19 the Company signed a power purchase agreement with Ørsted, to purchase renewable energy from an offshore wind farm which will meet around 25% of the Company's energy demand. The agreement is for a 10 year term at a fixed commodity price, increasing annually by CPI. The Company has concluded that the 'own use exception' applies, meaning that the power purchase agreement contract is not within the scope of IFRS 9 and therefore no further disclosures are necessary.

23. Contingent liability

Five connected claims have been issued against water and sewerage companies, including NWL, by personal search companies (PSCs) in connection with fees paid for water and drainage reports obtained in relation to property purchases. The PSCs claim that the information should have been provided free of charge, pursuant to the Environmental Information Regulations 2004.

The combined value of claims against the companies in the sector is stated to exceed £100m but, in common with the other defendants, NWL denies all liability and is defending the proceedings.

24. Pensions

NWL participates in the Group defined benefit pension scheme, NWPS, providing benefits to 1,052 active members at 31 March 2021 (2020: 1,117). The assets of the NWPS are held separately from those of the Group in independently administered funds.

The most recent actuarial valuation of the NWPS was at 31 December 2019. At that date, the value of assets amounted to £1,066.7m and the liabilities were £1,291.9m, resulting in a deficit of £225.2m and a funding level of 82.6%.

Under the revised schedule of contributions, the employers' contribution was set at £13m per annum, increasing annually by RPI. Employee contribution rates remained at between 6% and 8% of pensionable salary, dependent upon which section of the Scheme the employee is a member of. The Company operates a salary sacrifice scheme under which members can elect for the Company to pay employee contributions on their behalf in place of salary. The Company will continue to pay the employer NI savings resulting from the salary sacrifice arrangement as additional employer contributions to the Scheme.

In addition, the employers will make deficit reduction payments of £20m in 2021/22, increasing to £23.8m with effect from 1 April 2022 and increasing annually by RPI. The deficit reduction payments have been set with the objective of removing the deficit by 31 August 2027.

Employers' contributions (including associated company contributions) of £31.3m were paid in the year to 31 March 2021, of which £12.5m related to deficit reduction. For the year to 31 March 2022 employers contributions are projected to be £36.5m, including £20m in respect of deficit reduction.

FRS 101 acutarial assumptions:	2021	2020
Discount rate	2.15%	2.35%
Pay increases[1]	2.50%	3.00%
Price inflation (RPI)	3.20%	2.50%
Price inflation (CPI)	2.70%	2.00%
Pension increases linked to RPI	3.20%	2.50%
Pension increases linked to CPI	2.70%	2.00%
Mortality assumptions[2]		
- Life expectancy for a member aged 65 - female (years)	24.4	24.2
- Life expectancy for a member aged 65 - male (years)	22.0	22.4

[1] including promotional salary scale
[2] scheme specific bespoke 'Vitacurves' which reflect the characteristics of the Scheme membership

The fair value of the assets in the NWPS and the present value of the liabilities in the Scheme are shown below:

	2021 £'m	2020 £'m
Equities	278.4	218.4
Corporate bonds	76.8	100.0
Government bonds	437.8	483.6
Property related funds	45.4	47.8
Cash	12.3	19.5
Other	256.6	151.3
Total fair value of assets	**1,107.3**	**1,020.6**
Present value of liabilities	**(1,234.9)**	**(1,104.7)**
Deficit	**(127.6)**	**(84.1)**

The amounts recognised in the income statement and in the statement of comprehensive income are analysed as follows:

Recognised in the income statement:	2021 £'m	2020 £'m
Current service cost	15.9	16.4
Administration cost	1.6	2.3
Past service cost	1.2	1.5
Recognised in operating costs in arriving at operating profit	**18.7**	**20.2**

	2021 £'m	2020 £'m
Net interest cost on plan obligations	1.7	2.3
Recognised in finance costs	**1.7**	**2.3**

Recognised in the statement of comprehensive income:	2021 £'m	2020 £'m
Changes in financial assumptions	(152.7)	26.2
Return on assets (excluding amounts included in finance costs)	85.1	(12.9)
Other actuarial gains	13.2	3.6
Net actuarial (losses) / gains	**(54.4)**	**16.9**
Contributions made by associated company	0.2	0.1
Net actuarial (losses) / gains	**(54.2)**	**17.0**

Changes in the present value of the defined pension obligations are analysed as follows:

	2021 £'m	2020 £'m
At start of period	**1,104.7**	**1,139.3**
Current service cost	15.9	16.4
Administration cost	1.6	2.3
Past service cost	1.2	1.5
Interest cost	25.4	26.8
Contributions by plan participants	0.1	0.1
Benefits paid	(53.5)	(51.9)
Remeasurement:		
Changes in financial assumptions	152.7	(26.2)
Other actuarial gains	(13.2)	(3.6)
At end of period	**1,234.9**	**1,104.7**

Changes in the fair value of plan assets are analysed as follows:

	2021 £'m	2020 £'m
At start of period	**1,020.6**	**1,030.8**
Interest income on scheme assets	23.7	24.5
Contributions by employers (including associated company)	31.3	30.0
Contributions by plan participants	0.1	0.1
Benefits paid	(53.5)	(51.9)
Return on assets (excluding amounts included in finance costs)	85.1	(12.9)
At end of period	**1,107.3**	**1,020.6**

Nature of benefits, regulatory framework and other entity's responsibilities for governance of the Scheme

The Scheme is a registered defined benefit scheme subject to the UK regulatory framework for pensions, including the scheme specific funding requirements. The Scheme is operated under trust and as such, the Trustee of the Scheme is responsible for operating the Scheme and it has a statutory responsibility to act in accordance with the Scheme's Trust Deed and Rules, in the best interest of the beneficiaries of the Scheme, and UK legislation (including Trust law). The Trustee has the power to set the contributions that are paid to the Scheme.

Risks to which the Scheme exposes the Company

The nature of the Scheme exposes the Company to the risk of paying unanticipated additional contributions to the Scheme in times of adverse experience.

The most financially significant risks are likely to be:
- members living for longer than expected;
- higher than expected actual inflation and salary increase experience;
- lower than expected investment returns; and
- the risk that movements in the value of the Scheme's liabilities are not met by corresponding movements in the value of the Scheme's assets.

Asset-liability matching strategies used by the Scheme or the Company

The Scheme does not currently use any asset-liability matching strategies. The Trustee's current investment strategy, having consulted with the Company, is to invest the majority of the Scheme's assets in a mix of equities and corporate and government bonds, in order to strike a balance between:

- maximising the returns on the Scheme's assets; and
- minimising the risks associated with lower than expected returns on the Scheme's assets.

The Trustee is required to regularly review its investment strategy in light of the revised term and nature of the Scheme's liabilities. During the year, the Trustee chose to de-risk part of its equity allocation.

Sensitivity to key assumptions

The costs of a pension arrangement require estimates regarding future experience. The financial assumptions used for FRS 101 reporting are the responsibility of the Directors of the Company. These assumptions reflect market conditions at the balance sheet date. Changes in market conditions which result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increases of salaries, deferred pension revaluation or pensions in payment), can have a significant effect on the value of the liabilities reported.

There has been no change in the methodology used to assess the impact of changes in assumptions. Approximate adjustments were made to the defined benefit obligations reflecting the mean term of the liability.

Impact of changes in assumptions compared with actuarial assumption for the NWPS:

Actuarial value of liabilities on 31 March 2021:

	£'m
0.25% reduction in discount rate	1,292.2
0.25% increase in inflation	1,274.8
1 year increase in life expectancy	1,289.2

Maturity profile of the defined benefit obligation for the year ended 31 March 2021:

	Number of members	Liability split (%)	Duration (years)
Active members	1,052	36	25
Deferred members	1,074	15	22
Pensioners	3,165	49	12

25. Related party disclosures

The Company is a wholly owned subsidiary of NWGL, whose publicly available consolidated Financial Statements include the Company. Accordingly, the Company is exempt under the terms of FRS 101 from disclosing transactions with other members of the Group headed by NWGL.

Transactions with related parties outside of the NWGL group comprised purchases of £11.5m (2020: £13.7m) and sales of £112.2m (2020: £150.3m) and tax losses claimed with a value of £0.6m (2020: £nil). As at 31 March 2021 £5.5m (2020: £17.9m) is owed from these companies in respect of sales or rebates, and £nil (2020: £nil) is owed to these companies in respect of purchases.

The Company acquires vehicles from Vehicle Lease and Service Limited, an associated company, on a lease basis. During the year, new leases of £4.5m (2020: £3.3m) were entered into and capital repayments of £3.9m (2020: £3.7m) were made. The year end lease creditor was £12.2m (2020: £11.6m) and year end trade creditor was £1.1m (2020: £nil).

The companies with which NWL had transactions during the year, included in the above balances, were as follows:

- Anglian Water Business (National) Limited;
- CKI;
- Eastern Power Networks;
- Northern Gas Networks (NGN);
- UK Power Networks (Operations) Limited;
- Vehicle Lease and Service Limited; and
- Wave Ltd.

26. Ultimate parent undertaking and controlling party

NWGL is the Company's immediate parent undertaking and, in the Directors' opinion, the Company's ultimate parent undertaking and controlling party. NWGL is incorporated in England and Wales.

The parent undertaking of both the largest and smallest group of undertakings for which group Financial Statements are drawn up, and of which the reporting company is a member, is NWGL. Copies of NWGL's group Financial Statements will be available in due course from its registered office at Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ.

27. Prior year adjustment

The Company has reclassified cash balances related to overdrafts as borrowings, in accordance with IAS 32 Financial Instruments. These overdrafts have previously been incorrectly reported within cash and cash equivalents. This change has been applied retrospectively.

In the balance sheet as at 31 March 2020, overdraft balances of £30.4m have been reclassified from cash and cash equivalents to current borrowings (note 15).

In the cash flow statement as at 31 March 2020, movements in overdraft borrowings of £11.5m have been reclassified from cash and cash equivalents to financing activities and cash and cash equivalents have been restated from £4.7m to £35.1m. Brought forward cash and cash equivalents at 1 April 2019 have been restated by £18.9m, from (£0.5m) to £18.4m.

In the additional cash flow information note 21, as at 1 April 2019 the opening balance of £18.9m has been reclassified from cash and cash equivalents to bank overdrafts.

Comparative information has been restated in the balance sheet and cash flow statement. There was no impact on profits or losses, so no other primary statement was impacted.

Independent Auditor’s report to the members of Northumbrian Water Limited

Report on the audit of the Financial Statements

1. Opinion

In our opinion the Financial Statements of NWL:

- give a true and fair view of the state of the Company’s affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Classification of capital and operating expenditure; and • Provision for bad and doubtful debts. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £11.8m which was determined based on 3.5% of earnings before interest, tax, depreciation and amortisation (EBITDA).
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	We have changed the basis of determining materiality for the audit of the year ended 31 March 2021, from profit before tax to EBITDA, as this results in a more appropriate materiality measure in line with industry norms. Previously, we identified two additional key audit matters which have not been included as such this year. This change in scope is as a result of reduced uncertainty relating to the impacts of the COVID-19 pandemic compared to the previous year.

4. Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- assessing financing facilities including availability and access at the balance sheet date, the nature of facilities, repayment and expiration terms and associated covenants;
- evaluating management's going concern assessment and the linkage to the business model and medium-term risks including effects of changes in water availability and usage and potential changes in regulation;
- challenging assumptions used in the forecasts, including the effects of AMP 7 from the Ofwat final determination and the subsequent CMA final decision;
- evaluating the amount of headroom in the forecasts focusing on cash and covenants associated with financing activities;
- performing sensitivity analysis to assess how the headroom within the forecasts is affected by variations within the assumptions; and
- assessing the model used to prepare the forecasts, testing of clerical accuracy of those forecasts and assessing historical accuracy of forecasts prepared by management.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters which were identified in the prior year which are not identified as key audit matters in the current year are:

- revenue recognition (valuation of unbilled revenue accrual in Northumbrian Water Limited); and
- going concern and the impact of COVID-19.

We have assessed the above matters as part of our current year audit and have concluded that they are no longer key audit matters.

5.1	Classification of capex, opex and capitalised overheads
Key audit matter description	The water industry is capital intensive and pipeline assets require regular maintenance and upgrades. There is an inherent risk in the industry that costs included in property, plant and equipment are not capital in nature and/or are not in line with the capitalisation criteria of IAS 16. Annual capital expenditure across PPE and intangibles spend was £244.0m for the year ended 31 March 2021 (2020: £282.7m), together with significant spend on maintenance costs. The classification of expenditure on capital assets also includes the allocation of overheads to capitalised amounts, which is judgemental in nature. Given the level of capital expenditure forecast by the Company, it is important that appropriate policies are agreed in advance and adhered to. The capitalised labour costs were £45.0m for the year to 31 March 2021 (2020: £43.7m). Given the quantum involved in fixed asset additions, there is a degree of complexity in what can be capitalised and the allocation to either intangible or tangible assets, we deemed this as a potential fraud risk for our audit; this matter also had a significant impact on the allocation of resources in the audit. Further details are included in notes 1(d) and 10 to the Financial Statements.
How the scope of our audit responded to the key audit matter	• We obtained an understanding of relevant controls over the processing of accounting entries associated with capital and operating expenditure; • We evaluated the appropriateness of the Company's capitalisation policies and its approach to determining which costs should be capitalised and which expensed; • We compared the actual capitalised expenditure incurred in the period with regulatory targets and made enquiries of management to understand any under/overspend; • We performed testing on both capitalised and expensed amounts to assess whether these are classified in accordance with the Company's policies and IAS 16; • We continued to challenge and evaluate the levels of capitalisation at a department level, comparing the current year to those prior; • We tested a sample of capitalised overheads by agreeing to timesheets and project plans to assess whether capitalisation was appropriate and there is consistent application of the policy year on year; and • We benchmarked capitalisation rates to other utility companies using publicly available information.
Key observations	The results of our procedures were satisfactory. We concluded that the classification of capital expenditure, operating expenditure and capitalised overheads are appropriate.

5.2 Provision for bad and doubtful debts

Key audit matter description

As stated in the critical accounting judgements and key sources of estimation uncertainty in note 1(q) of the Annual Report, the value of the bad debt provision is calculated by applying a range of percentages to debt of different ages with higher percentages applied to different categories of debt depending on an assessment of the level of risk of default. There is a significant customer base, and regulations do not allow the Company to interrupt water supply to domestic customers. The valuation of the bad debt provision is sensitive to the specific percentages applied, which are judgemental.

At 31 March 2021 the bad debt provision was £111.0m (2020: £104.4m) and is therefore a significant balance.

The provision is based on assumptions made on the forecast and historic collectability of debts across both invoiced amounts and accrued revenues. The provision for bad and doubtful debts is significant in size and subject to high amount of management judgement and hence we have considered this to be a key audit matter.

Due to the complexity in calculating the provision, in conjunction with the additional considerations for COVID-19, we deemed this as a potential fraud risk for our audit. Further details are included within note 1(q) and 13 to the Financial Statements.

How the scope of our audit responded to the key audit matter

- We obtained an understanding of management's relevant controls surrounding the estimate;
- We compared the assumptions made by management in calculating the provision to evidence provided from historical collection data;
- We tested a sample of bad debt write offs occurring throughout the year as well as instances where the provision has been utilised;
- We tested a sample of bills included within the bad debt provision in order to confirm the accuracy of the aged debtor balance and the ageing categories applied;
- We assessed the reasonableness of any judgements made in respect of likely future events;
- We have challenged the adjustments made to the provision to reflect the impact of COVID-19 by looking at management's methodology used to arrive at conclusions verifying to external sources of information and other companies in the sector;
- We performed sensitivity analysis on the provision to assess the impact of changes in the cash collection rate; and
- We assessed the receivables ageing report to help assess whether overdue debtors are appropriately provided for.

Key observations

The results of our procedures were satisfactory. We have concluded that management's judgements are appropriate and that the provision for bad and doubtful debts was appropriately stated.

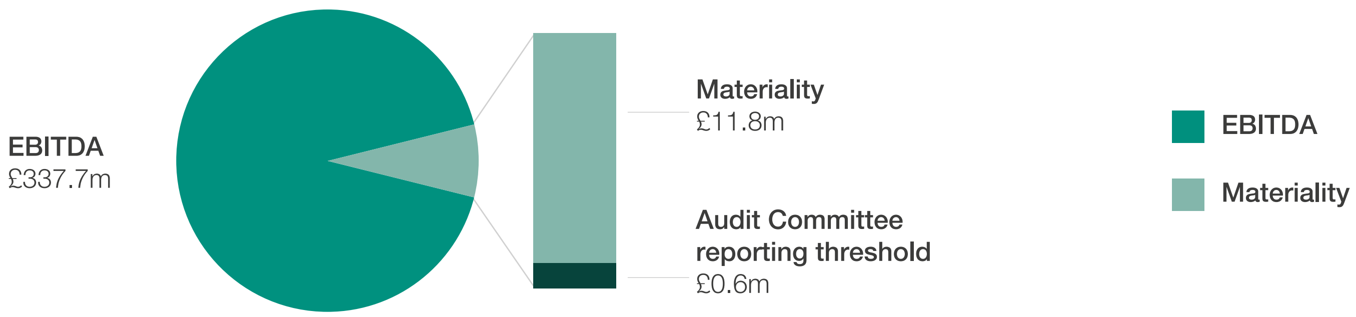
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Materiality	£11.8m (2020: £9.1m)
Basis for determining materiality	3.5% of EBITDA (2020: 5% of adjusted profit before tax.) We have changed the basis of determining materiality for the audit of the year ended 31 March 2021, from profit before tax, to EBITDA, as this results in a more appropriate materiality measure in line with industry norms.
Rationale for the benchmark applied	EBITDA selected as the appropriate measure on which to determine materiality as it is considered an area of focus for the users of the accounts.



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors:

- the quality of the control environment;
- the absence of any significant control deficiencies;
- the low volume and size of misstatements, both corrected and uncorrected in the previous audit;
- the low turnover of management or key accounting personnel; and
- our cumulative knowledge of the Company.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.6m (2020: £0.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1 Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. There have not been any changes in our scoping compared to the prior year.

7.2 Our consideration of the control environment

We involved our IT specialists to assess relevant controls over the Company's IT systems. As planned and reported to the Audit Committee, we did not adopt a controls reliance approach in the current and prior years.

8. Other information

The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information within the annual report.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Company's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the Board in the March 2021 meeting;
- results of our enquiries of management, internal audit, other individuals included in the financial reporting process and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: Classification of capital and operating expenditure, provision for bad and doubtful debt, and revenue recognition relating to the valuation of unbilled revenue accrual. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act and Ofwat Pricing and customer service requirements.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the group's compliance with the following: regulations surrounding pollution of water, the Drinking Water Inspectorate (DWI), the Consumer Council for Water, Health and Safety regulations, the Employment Act and with the Environment Agency.

11.2 Audit response to risks identified

As a result of performing the above, we identified the classification of capital and operating expenditure and the provision for bad and doubtful debt as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.
In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the audit committee and external legal counsel concerning actual

and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with any relevant regulatory authorities;
- in addressing the risk of fraud in revenue recognition, we have performed the following procedures:
  - obtained an understanding of management's relevant controls over the unbilled revenue accrual;
  - performed testing of the accrued revenue calculation and assessed the appropriateness of accounting estimates made by management;
  - challenged management's retrospective review on the March 2020 balance;
  - assessed the accrued revenue balance for any potential recoverability issues by tracing a sample to subsequent bill and cash payment; and
  - performed substantive analytical procedures on the year-end balance by forming an expectation compared to the prior year; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Johnson FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Newcastle upon Tyne
United Kingdom
15 July 2021

Northumbrian Water Limited
Northumbria House
Abbey Road
Pity Me
Durham
DH1 5FJ

Northumbrian Water Limited (registered in England and Wales with Company No. 02366703) trades and operates as 'Northumbrian Water' in the North East of England and as 'Essex and Suffolk' in the South East of England.