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NORTHUMBRIAN WATER LIMITED ANNUAL PERFORMANCE REPORT

For year ended 31 March 2022

NORTHUMBRIAN WATER LIMITED ANNUAL PERFORMANCE REPORT FOR YEAR ENDED 31 MARCH 2021

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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

BOARD STATEMENT – OUR PURPOSE, VISION AND PERFORMANCE

This statement sets out how we, the Board of Northumbrian Water Limited, set the company's aspirations in respect of the services we provide to our customers and other stakeholders - both now and into the future; how we are performing against our aspirations, and how we structure management rewards to incentivise delivery of these aspirations.

Driven by our Purpose, and our long-term vision to become the national leader in the provision of sustainable water and wastewater services, 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. This requires us to consistently deliver outstanding service to our customers across our water and wastewater businesses, as well as maintaining the highest levels of environmental performance.

We are also clear that to be the national leader means to continue raising the bar to improve standards further and delivering leadership and showing support for our region and communities in the face of climate change and the challenges it brings is vital. Our Route-map to Net Zero adds to our genuine commitment to the environment using renewable energy, sustainable management of our land, and our leading efforts to support vulnerable people and our communities.

How we set our aspirations

The aspirations we set for the current price control period 2020-25 were developed through extensive engagement and consultation with customers and other stakeholders throughout our business planning process. Through this engagement, the company agreed updates to our Outcomes for customer service, the environment, and the way we manage the business. For each Outcome, we agreed challenging Performance Commitments (PCs) which we use to monitor and report on our performance.

In this report, we set out our Outcomes and how we deliver these across our strategic themes, as well as through our Purpose and Values. We report on our performance against our Outcomes and PCs in this report.

However, to drive the year-on-year performance improvements necessary to deliver our Vision of being national leader, we set ourselves tougher, stretching targets within the business. These targets are reported internally through a balanced scorecard of key performance indicators which cover the full range of strategic themes that support our Vision. We re-set these targets each year, taking account of how other companies in the industry have performed and what our customers have told us about their priorities.

We also work closely with the Water Forum, which brings together expertise from a wide range of stakeholders. Our Independent Non-Executive Directors, and Executive Directors, regularly attend Forum meetings and workshops. This ensures that the Board directly understands the areas where Forum members are challenging us to improve performance and Outcomes for our customers and stakeholders.

To align the Executive Leadership Team's focus with the business Outcomes we want to attain, performance-related elements of pay are dependent upon the achievement of stretching internal targets from across our balanced scorecard of performance measures. Both short-term and long-term incentive plans are structured with 60% related to targets delivering benefits for customers and the environment and 40% related to financial targets. The Remuneration Committee Report is available within our **Annual Report and Financial Statements** and provides full, transparent detail on our directors' remuneration policy and how remuneration in the year has been calculated.

Performance in 2021/22

This report describes our performance in 2020/21 against our Performance Commitments (PCs) in detail.

We're delighted to have achieved our ambition to be in the top two companies for C-MeX, the measure for customer experience and to have hit our water poverty target, especially given the current economic climate and the cost-of-living crisis our customers are facing.

We are very proud to have scored significantly above average in many categories in the 2021 Water Matters Report carried out by CCW in relation to satisfaction with value for money, trust and customers saying we care about the service we give.

We are delighted to once again have achieved the top four-star rating in the Environment Agency's most recent annual Environmental Performance Assessment, securing a 'green' assessment in areas such as serious pollution incidents and self-reported pollution incidents among others.

We're on track with WINEP delivery and our bioresources record remains at 100%, however, we were disappointed to narrowly miss out on our target for treatment works compliance. We are on track for our ambitious goal to achieve net-zero status in relation to our operational greenhouse gas emissions by 2027, having already reduced our carbon emissions by over 68% since 2019.

We performed well on many customer-focused measures of water asset health, such as, discoloured water contacts, taste and smell contacts, AIM, risk of severe restrictions in a drought, unplanned outages, water mains repairs and visible leak repairs. We were disappointed not to achieve our leakage targets in both our operating areas this year.

The full impact of Storm Arwen resulted in us failing our targets in all three Interruptions to supply measures. We were disappointed not to achieve our drinking water quality PC but are confident that improvement activities have been identified to achieve the new Compliance Risk Index measure in future.

Our sewer flooding improvement plan has continued to deliver results, with key initiatives making significant and quantifiable impacts in the areas they are targeting, especially in relation to repeat sewer flooding. However, our targets for sewer flooding are enormously challenging and despite delivering a step change in performance in 20/21, we have more to do to achieve our goal,

We welcome the key role that the Water Forum play in providing challenge on behalf of our customers. As part of this process, we report to and discuss our performance with the Water Forum and they provide their independent commentary on **pages 9 to 11**.

Looking to the future

We have recently published **A Vision for our Coasts and Rivers**, a report that outlines the pledges and how we will play our part in enhancing the local environment. It details our new long-term commitments to water quality, and our programme of work to 2025 that will help us achieve our goals.

Listening to our customers and having a deep understanding of what they expect from us now and in the future is important to us. Specifically, for PR24 business planning, we have developed a bespoke programme of customer research and engagement that will allow us to seek our customers' views on key elements of our future plans, including our long-term strategies.

We're pleased that the upcoming price review will focus on delivering greater environmental and social value as we already work hard to protect our rivers and beaches, and make sure we spend at least 60p in every pound with local suppliers.

As a Board, we remain committed to continuing our drive to be the national leader and to deliver outstanding service to our customers and other stakeholders both for now and into the future.

Signed on behalf of the Board of Northumbrian Water Limited:

By order of the Board

Andrew J Hunter
Chairman

Heidi Mottram
CEO

Alan Bryce
Senior Independent
Non-Executive Director

Dominic Chan
Non-Executive Director

H L Kam
Non-Executive Director

Duncan Macrae
Non-Executive Director

Jacquie McGlade
Independent Non-Executive Director

Bridget Rosewell
Independent Non-Executive Director

Richard Sexton
Independent Non-Executive Director

Peter Vicary-Smith
Independent Non-Executive Director

15 July 2022

CEO'S WELCOME

I would like to take this opportunity to thank our teams across the business for their flexibility and adaptability as we've continued to provide essential services while the pandemic continued to affect us. Thankfully, we have begun the process of returning to more normal working arrangements and I am delighted we remain one of the leaders in our industry under these challenging circumstances.

We take our responsibility towards the environment very seriously and remain committed to pursuing our goals to reduce carbon emissions and waste. I'm proud that we've been named on the World's Most Ethical Companies list, compiled by the Ethisphere Institute, for the eleventh time, the only water company recognised. This reflects our work supporting our people and embedding an ethical approach and a strong sense of purpose in our culture.

After making sustained progress since 2017/18 we are delighted to have now reached our ambitious local spending goal, ensuring that 60p in every £1 we spend is spent locally, changing lives for the better in our regions. I am also proud of the great progress we have made in tackling affordability, a hugely important topic for our customers. The challenges faced by households through Covid-19 and the impact of high inflation on energy bills and food prices make this as important as ever.

Benchmarking ourselves against others inspires us to constantly find new ways to innovate and improve. We have worked hard to exceed our stretching targets in many areas, building on our strong track record in a year that has not been without its challenges.

Customer

We're committed to eradicating water poverty in our regions by 2030 and have already reduced this to less than 10%. Despite the recent increase, our bills (in NW region) are still the lowest water and sewerage bills in England.

I am particularly delighted that we have excelled in our customers' eyes. Our people work hard to get it right 'first time, fast time, every time', so we can deliver an unrivalled customer experience. C-Mex is Ofwat's measure of customer experience, and I was thrilled to see the results of our effort being reflected in the scores this year, achieving our stretching aim of being in the top two in the industry. In July 2022 NW was listed as the top scoring English water company, and ESW second, in the UK Customer Service Index (data collected September and October 2021 and March and April 2022), a national barometer of customer satisfaction published by The Institute of Customer Service.

Environment

We were especially pleased to have delivered a good environmental performance, including retaining a 4* EPA from the EA and we are well on course to exceed our Net Zero target by 2027. In April 2022 we published 'A Vision for Our Coasts and Rivers' which includes nine pledges we believe will be effective for our unique water environment and make a real difference to our communities. Expectations of the water industry are changing. Increased challenges around climate change and population growth mean simply meeting current obligations won't be enough in the future. While we already perform relatively well against the recommendations recently laid out in Ofwat and CCW's joint sewer flooding research report, we recognise that areas for improvement exist.

We continue to work in partnership with others as water quality can be affected by many different sources. For example, we have worked with Marske Litter Action, a local community group committed to improving the coastal area, to develop public understanding of our wastewater system and promote our Bin The Wipe campaign.

Water

We continue to meet the challenges of a changing climate, including facing one of the most powerful winter storms on record in our northern operating area, Storm Arwen. Taking into account the exceptional impacts of Storm Arwen, our performance to keep the water flowing for our customers remains at the forefront of the industry. I was enormously proud of the response of our teams to battle through extreme conditions to return supply for customers as quickly as possible.

Our focus is on making the right long-term decisions to ensure a reliable and resilient supply. We are planning now for future challenges, such as longer periods of dry weather and an increase in non-household demand in Suffolk. Tackling leaky loos remains a key component of our water efficiency strategy as we face the continued challenges of climate change.

Once again, we delivered on the customer focused aspects of water quality, like taste and smell and discoloured water, but there remain areas where we strive to do better. We have agreed a plan for water quality with the DWI for which we are currently on track. Our innovation focus continues and we're developing exciting plans using digital twins of the network to tackle problem areas. We were pleased to have reduced the time it takes us to repair customer-reported visible leaks, something our customers tell us is very important to them and demonstrates that we are listening and responding to their priorities.

Our People and the Communities we serve

Having an engaged, healthy, and diverse workforce is critical for our business success. We developed our 'Together for Inclusion, Diversity and Equity' strategy this year, which alongside our award-winning programmes on employee health, contributed to us being named in the top 35 Great Places to Work survey (super-large category) for the second year running. We were absolutely delighted to be the first and only water company to achieve the Good Business Charter (GBC) accreditation, recognising us for responsible business practices.

We're finding new ways to make sure the economic benefit of our spending is maximised in our regions, as per our commitment to supporting local communities, and remain committed to spending 60p in every £1 in region.

Looking Forward

We are making further progress towards the ambitious goals we set in Our Plan and will continue to drive this forward over the coming year. I know we are building on strong foundations in areas such as customer service and environmental performance. Equally we must improve our performance across water quality, leakage, and sewer flooding, investing in the resilience of our assets. We have already begun talking to customers and stakeholders about our next regulatory Business Plan, focusing on understanding and planning for long-term challenges around climate change, economic and population changes, changes to customer behaviours and expectations, and developing investment priorities.

We will also continue to work with the EA and Ofwat on their environmental investigations at wastewater treatment works (at four out of 189 locations) and have already acted to make improvements. Collaboration is key as we strive towards globally important climate change goals and improving the water environment and biodiversity on our landholdings. We are proud of our achievements to date, but never complacent and will continue to make further service improvements.

H Mottram

H Mottram CBE, CEO

WATER FORUM STATEMENT

Each year, members of the Water Forum, NWL's independent Customer Challenge Group (CCG), have the opportunity to review the company's results against the promises made to its customers when agreeing its business plan with Ofwat.

This review covers the 12 months to the end of March 2022: a period during which the country emerged from the pandemic, with new work trends that have directly impacted water consumption patterns; towards the end of which international geo-political issues kickstarted a 'cost of living crisis' in the UK and the return of an inflationary economy; and throughout which the impacts of climate change continued to be observed and felt. These factors will all continue to be extremely influential in the year ahead, so they have been front of mind when considering the comments and challenges offered below.

Customer Service: In 2021 we challenged the company to review its contact centre resource provision, as customers were waiting too long for calls to be answered and call 'drop out' rates were high. NWL completed a review and increased resource, customers are getting their calls answered more quickly, which is a step in the right direction. We urge the company to take further measures in the 2022-23 to continue the progress achieved so far, especially given that when customers get through, the contact centre team handles cases well – as evidenced by the second highest score nationally against Ofwat's measure of Customer Experience (C-MeX).

Water Poverty and Customers in Vulnerable Circumstances: We are very pleased that NWL has beaten its annual target for the percentage of households receiving assistance and therefore being out of water poverty – a key contributory factor was the significant work done with the Department for Work and Pensions to overcome the barriers to data sharing. As the cost of living continues to grow amid inflationary pressures, meeting its targets for 2022-23 and beyond will require NWL's leadership and involvement in more initiatives of this kind – in both the public and private sectors – and we hope to see the momentum continue.

We are surprised at the below-target awareness levels of financial and non-financial support that is available to customers and have challenged the company to understand why this is, so that it can take appropriate action to meet future targets. Customers who are aware of and receive such support are satisfied (as the performance data on **page 19** shows), so it may be worth NWL considering how it could use this positive result in its approach.

Environment: Water Forum members are pleased to note NWL's commitment to and performance in many aspects of its environmental impact – most notably the out-performance by a factor of three in both its greenhouse gas emissions and its 'water environment improvements' measures.

The company's retention of the 4-star Environmental Performance Assessment (EPA) rating from the Environment Agency is very positive; on the other hand, it is disappointing that treatment works discharge compliance levels dropped in 2021-22. We acknowledge NWL's increased focus on this area and hope that the measures being taken will reverse this situation in the coming year.

Customers using the 32 'good or excellent' coastal bathing waters in the Northumbrian Water region will undoubtedly be pleased at their quality ratings. As highlighted within this report, one bathing water, Marsden, meets the sufficient standard and the multi-party collaborative work to understand the root cause of the bathing water quality issue at the 34th location, Cullercoats Bay, is progressing and we remain hopeful of a resolution.

We would like to commend NWL on the way it handled the Saltburn situation in February 2022, when an emergency sewer repair was needed after a third-party incident – the community was protected, the system continued to operate, and pollution was minimised.

Pollution incidents, including those caused by Storm Overflows, are high on the public interest agenda. We are pleased that in its wastewater river quality action plan, NWL has committed to improve its performance on the use of storm overflows; and will monitor and provide challenge to the management team as it works towards the targets it has set itself.

The company did not meet its Ofwat 2021-22 target for the number of sites being improved under the five-year Water Industry National Environment Programme (WINEP), which runs for another three. We acknowledge, however, that NWL is on track against the revised targets agreed with the EA in light of the delays caused by the Covid-19 pandemic.

Drinking Water Quality: The ‘Compliance Risk Index’ (CRI) score stands out as an area of poor performance for the company and has attracted a large financial penalty. Our members have stayed close to this critical issue throughout the year and understand it well. The large transformation programme that NWL is working on with the Drinking Water Inspectorate (DWI) to improve the CRI scores is a long-term one and, reassuringly, we have observed a number of examples where improvement work should realise the necessary benefits in the measure.

For those sites included in the future programme, we encourage the company to realise benefits as quickly as possible by adopting any lessons learned wherever it can.

Sewer Flooding: The ‘repeat sewer flooding’ performance measure is one that was included because of challenge from the Water Forum during the PR19 business planning process, so we are particularly pleased to see the company’s continued strong performance for its customers. Clearly, there is still much work for NWL to do to achieve some of the other sewer flooding targets, and customer behaviour is acknowledged as being an important factor – last year we challenged the company to use its positive reputation for partnership working to take a lead in a national ‘bin the wipe’ style campaign, and we are pleased that the company has risen to this challenge and a campaign is now being developed with Water UK.

Water Resources: Pressure on water resources is coming from many angles, particularly in the Essex and Suffolk region – many commuters who, pre pandemic, consumed their water in their city offices are now consuming it at home, which is reflected in the missed targets for Per Capita Consumption (PCC); the effects of climate change continue to have an impact; and leakage remains a tough nut to crack.

On the latter, although NWL has delivered ahead-of-target performance for its response to visible leaks, overall leakage reduction was below target. We understand that many leaks are ‘invisible’ and finding them poses the greatest challenge in meeting these targets – we are therefore encouraged by the innovative National Leakage Research & Test Centre project and look forward to seeing the results it delivers.

For its Water Resource Management Plan (WRMP) to succeed, we believe that there is a real need for the company to engage holistically and comprehensively with the public on the nature of the water resource challenge and the part that each party could play in resolving it. Anecdotally, customers have low awareness of the problem but very much a willingness to work with NW/ESW to improve the position.

Weather and asset resilience: November’s Storm Arwen clearly had a large, adverse impact on all ‘interruptions to supply’ performance measures. And although the biggest issues were due to Northern Power Grid’s challenges, we urge NWL to take the actions it has outlined in order to improve the water network’s operational resilience in the event of power outages in future. To deliver more for less, there may be opportunities to work in partnership with the industry and with the power distribution sector too. From a strategic planning point of view, Arwen has also shone a light on the importance of considering different types of storm and weather events, such as flash flooding and freeze-thaw events, which are increasing in frequency and intensity as a result of climate change – the industry as a whole needs to be fully prepared for, and resilient to, such weather events, as we consider them to now be ‘business as usual’ rather than rare occurrences. In conclusion, the Water Forum look forward to seeing what the company can deliver for its customers in 2022-23; and between now and then our members will continue to fulfil their role of providing independent challenge, insights and expertise throughout the delivery of the current business plan and in the development of the plans for the next Ofwat review of prices in 2024 (PR24).

Melanie Laws, Water Forum Chair

WHO WE ARE

Northumbrian Water Limited provides:

- Water and wastewater services to 2.7 million people in North East England, trading as Northumbrian Water, and
- Water services to 1.5 million people in Essex and 0.3 million people in Suffolk, trading as Essex & Suffolk Water.

OUR PURPOSE

Our Purpose is 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 VALUES

As important as what we do is how we do it. Our Values define how we work to deliver our Outcomes and achieve our Vision.

CUSTOMER FOCUSED

We aim to exceed the expectations of our external and internal customers.

RESULTS-DRIVEN

We take personal responsibility for achieving excellent business results.

ETHICAL

We are open and honest in meeting our commitments, with a responsible approach to the environment and our communities.

INNOVATIVE

We continuously strive for innovation and better ways to deliver our business.

ONE TEAM

We work together consistently, promoting co-operation, to achieve our corporate objectives.

OUR OUTCOMES FOR 2020-25

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.

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.

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.

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 an essential service that is relied on by our customers and communities. Understanding their experiences, needs and expectations is therefore vital to our business success in the short and long-term. To achieve this, it's critical for us to engage with the representatives and organisations who share and help to advance their interests, including in relation to the environment in our regions.

We engage proactively with a wide range of stakeholders to understand their views, insight and expertise, and work with them to provide an unrivalled customer experience and deliver our business Outcomes.

STAKEHOLDERS / WHY WE ENGAGE WITH THEM	HOW WE ENGAGE	KEY ISSUES COVERED
Customers Understanding customer priorities and preferences, as well as their experiences, is vital to delivering world class services today and preparing for the future.	• Focus groups / deliberative workshop groups, including via digital platforms • Co-creation workshops • Email surveys • SMS surveys • Social media • Community Portal • Online community groups – Have Your Say • People's Panels • Customer Zone at Innovation Festival	• Defining the Future • Long-term strategies • Drainage and Wastewater Management Plan • Water Resource Management Plans • SMART metering • Complaints and compensation • Water environment improvements • Water use behaviours • Digitalisation • Campaigns feedback
Colleagues Our colleagues deliver daily the activities and services that enable us to achieve our ambitious goals. Our success is dependent upon their engagement, collaboration and innovation. Therefore, it's essential to understand their needs and invest in them.	• Weekly 'Heidi Live' question and answer session via broadcast with CEO • TeamTalk business update events with Leadership Group and cascaded to all colleagues • Internal communication channels – new intranet, weekly interactive newsletter, email newsflashes, digital screens, Yammer • Leadership Conferences • Informal 'coffee morning' discussions with CEO and Executive Leadership team • Company-wide employee surveys • Internal networks and forums	• Company performance and scorecard updates • Reinforcing our Company purpose, vision and values • Health, safety and wellbeing campaigns • Return to Office planning and communication following pandemic • Diversity and inclusion strategy and campaigns • Innovation projects and ideas • Survey feedback and resulting focus areas
Ofwat As our economic regulator, Ofwat plays a key role in setting the conditions for us to fulfil our statutory duties and meet customers' expectations.	• Responding to consultations • Peer to peer contact and meetings • Annual Performance Report (APR)	• Preparation for PR24. • Preparation for APR, including assessing impact of Storm Arwen, and treatment of Greenhouse Gases reporting • Engagement with Ofwat's innovation competition • Flow to Full Treatment Investigation

Environment Agency We are committed to delivering excellent environmental outcomes and work closely with the Environment Agency to ensure we consistently achieve high standards.	• 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 • Site visits • Regional and local partnerships and groups, including Regional Flood and Coastal Committee, Northumbria Integrated Drainage Partnership (NIDP) and Catchment Partnerships • Water Resources East	• Compliance and performance, including pollution and bio-resources • Event duration monitoring • WINEP delivery • Drainage and Wastewater Management Plan • Water Resources Management Plans • Infrastructure investment and nature-based solutions • Net zero target and regional climate initiatives
Drinking Water Inspectorate Our commitment to providing clean, clear, great tasting water requires us to understand and meet the DWI's expectations for best practice.	• Responding to consultations • Quarterly operational and transformational liaison meetings • Senior leadership strategy meetings • Chief Inspector's report launch meetings • Consultation and negotiation via Water UK groups at board, strategic and policy levels • DWI laboratory liaison groups • Water safety planning forums • Reviews of regulatory commitments • Industry task and finish groups • On site collaborative investigations and audits	• 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
Water Forum Our Water Forum play a critical role in challenging us on how we listen to and act upon the customer voice, as well as our performance across a range of focus areas.	• Formal meetings and sub-groups • Meetings with senior managers, Executive Leadership Team, and Board members • Consultation processes	• Company performance • Customer engagement activity and performance • Financial support for customers • DWMP and WRMP • Drinking water quality improvements • Climate change adaptation and mitigation
CCW CCW help us understand how we can continue to develop world class customer service and deliver against increasing customer expectations.	• 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 / PAGs	• Complaints management and best practice • Water Matters tracking research • Tariffs, including social tariffs • Customer engagement • Future service provision • Innovation Festival outcomes
Supply chain partners Our supply chain is vital in enabling us to deliver our services. It is also a significant part of 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 • Community investment initiatuves • Responsible procurement approaches

Government and policy makers Politicians, civil servants, and policy makers have a significant influence on the conditions within which we operate. They also have an interest in understanding how we serve our customers and communities.	• Briefings • Site visits • Face to face meetings • Attendance at key forums • Speeches and events • Responding to consultations	• Environmental performance and net zero commitment • Environment Act • Water demand • Storm Overflows and river water quality • Eradicating water poverty • Innovation activity
Local authorities Local authorities are important partners in delivering services within their areas. They also have a deep understanding of the communities we operate in.	• 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 • Local campaigns and customer engagement initiatives • Environmental performance • Regional plans, including economic development and environmental initiatives • Eradicating water poverty • Water resources • DWMP
NGOs and charities We're committed to positive outcomes in our communities and environment. 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 • Innovation and development support • 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
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 • Investment schemes • Key campaigns, including Bin The Wipe • Environmental initiatives • Water saving / usage advice • Water safety advice • Customer service support • Community initiatives
Investors Our investors ensure we have access to the funding we need to deliver services and invest for the future. They also provide important feedback and insight to inform our business practices.	• Periodic reporting • Investor update on new issuance • 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

ASSURANCE SUMMARY

Within this Annual Performance Report, we publish a range of information about our services and performance, including how we're performing against the commitments we made in our 2020-25 Business Plan. This helps to provide our customers and stakeholders with assurance that we're delivering what they've told us they need and want from us.

It's important that we have robust assurance arrangements to make sure this information is accurate, clear, and transparent.

This is essential to building and maintaining a high level of trust and confidence with our customers and stakeholders.In March 2022, following consultation with customers and stakeholders, we published our **Assurance Plan for 2022/23**. Consistent with guidance from our economic regulator (Ofwat), this document firstly assessed any strengths, risks and weaknesses associated with either meeting our obligations and commitments or providing information of appropriate quality. It then detailed the checks and balances (assurance) we planned to carry out to address these risks and make sure we remain on track.

A significant proportion of our assurance is targeted at making sure that the information we publish in our Annual Performance Report is of appropriate quality. We've published a **Data Assurance Summary** alongside this Annual Performance Report. This details how we decide what level of assurance should be applied to our data (i.e. who should provide the assurance), and whether this has been completed during the year. It also details key findings and, in conclusion, confirms that there were no significant issues to report.

INTRODUCTION

This report summarises our performance against our Outcomes during the regulatory year ending 31 March 2022. This is the second year of us delivering our 2020-25 Business Plan.

Our drive to be the best is supported by six strategic themes: Unrivalled customer experience; affordable and inclusive services; leading in innovation; reliable and resilient services; improving the environment and building successful economies in our regions. Our Outcomes are aligned to these themes and set out what we aim to achieve. They represent what our customers have told us they value in the long-term. They are our commitments, or promises, to our customers.

Our 14 Outcomes were developed with our customers and stakeholders. Everything we do is driven by an Outcome for our customers.

To track performance against our Outcomes we have clear metrics with associated targets – our Performance Commitments (PCs). For delivering better performance in certain measures, we could earn a financial reward. Conversely, poor performance in certain measures could incur a financial penalty. These rewards and penalties are called Outcome Delivery Incentives (ODIs). Some of our performance measures are simply reputational, which means that they do not incur financial penalties or rewards.

This performance report sets out the work that we are doing to deliver our 2020-25 PCs along with our progress towards the longer-term goals which we've set.

The report provides extended commentary for **tables 3A to 3I**, which is a summary of our performance against our PCs that we must provide for our regulator (Ofwat) every year.

We measure our performance and calculate any penalties or rewards using the methodology in our **PR19 Final Determination**, along with any subsequent amends set out in the CMA's recent redetermination.

This reporting process is subject to robust assurance, as set out in the **Data Assurance Summary**. Further information about our performance is available on our website **www.nwg.co.uk**. For information about how we are performing in comparison to other water and sewerage companies, visit **www.discoverwater.co.uk**.

OUR ANNUAL PERFORMANCE AT A GLANCE

We show figures in **green** where we've met our performance against our promise this year, and **red** where we have not met our performance. Similarly, any applicable rewards are shown in **green** and penalties in **red**.

For further details about reasons for performance and our plans for improving, please see the detailed section for each PC later in this document.

MEASURE OF SUCCESS	COMMON / BESPOKE	OUR PROMISE FOR 2021/22	OUR PERFORMANCE		
			2020/21 ACHIEVED	2021/22 ACHIEVED	REWARD / PENALTY (£)
Ofwat's Customer Measure of Experience (C-MeX)	C	-	85.76 (3rd)	84.46 (2nd)	+£3.12M – estimated tbc by Ofwat
Response time to written complaints	B	2 days	7.1 days	9.97 days	Reputational only
Ofwat's Developer Services Measure of Experience (D-MeX)	C	-	86.94 (7th)	88.56 (5th)	+£0.876M – estimated tbc by Ofwat
Customers' perception of trust (independent survey)	B	8.8	8.8	8.7	Reputational only
NWL independent value for money survey	B	8.3	8.3	8.2	Reputational only
Percentage of households in water poverty	B	10.97%	10.38%	9.61%	Reputational only
Awareness of additional financial support	B	52%	41%	38%	Reputational only
Satisfaction of customers who receive additional financial support	B	8.7	9.3	9.2	Reputational only
Awareness of additional non-financial support	B	45.5%	50%	45.0%	Reputational only
Satisfaction of customers who receive additional non-financial support	B	8.7	8.7	8.7	Reputational only
Priority services for customers in vulnerable circumstances – Reach/ Actual contact/ Attempted contact	C	8.2% / 35% 90%	2.3% / 57.3% / 40%	3.5% / 40.2% / 93.4%	Reputational only
British Standards Institute Award for Inclusive Services	B	Maintained	Maintained	Maintained	Reputational only
Voids	B	4.35%	3.74%	3.53%	+£1.333M
Gap sites	B	87.1%	67.5%	64.3%	Reputational only
Risk of severe restrictions in a drought (% of customers)	C	0%	0%	0%	Reputational only
Per Capita Consumption (PCC) (litres/person/day 3 year average)	C	1.8% reduction to 147.9 litres	3.8% increase to 156.3 litres	4.7% increase to 157.7 litres	Ofwat to review in 2024/25
Unplanned outages at Water Treatment Works	C	5.36%	5.69%	4.57%	£0M - penalty only measure/no reward available

MEASURE OF SUCCESS	COMMON / BESPOKE	OUR PROMISE FOR 2021/22	OUR PERFORMANCE		
			2020/21 ACHIEVED	2021/22 ACHIEVED	REWARD / PENALTY (£)
Interruptions to supply between one and three hours (mm:ss)	B	97.5%	n/a	87.9%*	+£0.604M*[1]
Water supply interruptions greater than three hours (mm:ss)	C	6 mins 8 sec	4 mins 4 sec	5 mins 51 sec*	+£0.288M*
Interruptions to supply greater than 12 hours (properties)	B	475	143	917*	-£1.462M*
Leakage (ESW)* (MLD 3 year average)	C	3.7% reduction to 62.8 MLD	0.5% reduction to 64.9MLD	3.2% reduction to 63.1 MLD	-£0.054M
Leakage (NW)* (MLD 3 year average)	C	3% reduction to (130.8 MLD)	1% increase to 136.2 MLD	0.1% reduction to 134.7 MLD	-£0.683M
Visible Leak repair time (average days)	B	8	9.7	6.7	+£0.339M
Mains repairs (per 1,000km main)	C	137.1	127.0	110.9	+£1.411M
Abstraction Incentive Mechanism (AIM)	B	0	n/a	n/a	n/a
Water quality compliance (CRI)**	C	0	7.11	6.36	-£6.078M
Event Risk Index (ERI)**	B	224.000	197.592	289.699	-£0.072M
Discoloured water contacts (per 10,000 population)**	B	9.75	8.22	8.42	+£1.168M
Taste and smell contacts (per 10,000 population)**	B	2.07	1.75	1.89	+£0.158M
Internal sewer flooding (per 10,000 connections)	C	1.63	1.89	1.84	-£0.530M
Repeat sewer flooding	B	44	25	23	+£1.157M
External sewer flooding	B	3,191	3,862	3,454	-£1.649M
Risk of sewer flooding in a storm	C	29.8%	16.11%	16.11%	Reputational only
Sewer blockages	B	11,379	12,023	11,991	-£0.883M
Sewer collapses (per 1,000km of sewers)	C	10.06	9.82	8.71	£0m - penalty only measure/no reward available
Treatment works discharge compliance**	C	100%	99.51%	98.03%	-£0.579M
Bathing water compliance (no. Of sites achieving good or excellent)**	B	97.06% (33 of 34 sites)	n/a	97.06% (33 of 34 sites including 1 exemption)	£0M

[1] * ITS 1-3, ITS 3 and ITS 12 numbers assume Ofwat accepts NWL's representation for the majority of the impact of Storm Arwen to be excluded. The supporting data tables include the full impact of the storm (as requested by Ofwat) and the supporting narrative on **page 70** includes both sets of figures for transparency"

** PCs are reported in calendar year

MEASURE OF SUCCESS	COMMON / BESPOKE	OUR PROMISE FOR 2021/22	OUR PERFORMANCE		
			2020/21 ACHIEVED	2021/22 ACHIEVED	REWARD / PENALTY (£)
Pollution incidents (per 10,000km of sewers) **	C	23.74	14.61	22.98 per 10,000km (69)	+£0.227M
Water Industry National Environment Programme (WINEP)	B	397 sites	0	347	Reputational only until end period
Delivery of WINEP requirements	B	Met	Met	Met	Reputational only
Water environment improvements	B	10 KM	30.2 KM	34.6km	+£0.189M
Greenhouse gas emissions (tCO2e reduction from 2019/20 baseline)	B	5,602	15,235	46,492	+£7.646M
Bioresources	B	100%	100%	100%	Reputational only

We have strived to deliver our PCs in what has been a challenging year due to the ongoing impacts of Covid-19, a deteriorating economic and political climate, and the constraints imposed by Ofwat's Final Determination for 2020-25.

We're pleased to have achieved or beaten 24 out of our 42 PCs in 2021/22. This excludes the final assessment of C-MeX and D-MeX, and AIM, which was not activated in 2021/22.

The table above shows we earned rewards for 11 of these achievements, excluding the final confirmation of C-MEX and D-MEX rewards. Of the remaining 12 commitments we achieved, nine were reputational only and two penalty only (Bathing Waters PC was achieved but not surpassed leading to no reward).

We accrued penalties for not meeting nine of our PCs this year and did not achieve eight of our reputational only PCs (nine including per capita consumption which will be reviewed at the end of the AMP in relation to levels of rewards and penalties). While there have been some setbacks this year regarding progress towards our longer-term ambitious goals, we're committed to continuing to strive to achieve them.

Headlines include:

- We are absolutely delighted to have achieved our ambition of being in the top two companies for C-MeX in 2021/22, the industry-wide measure that provides a holistic comparison of companies' customer satisfaction and experience performance.
- We are also delighted to have beaten our water poverty target, keeping us on track to deliver our ambition to eradicate water poverty in our operating areas by 2030. This has been especially challenging given the current economic climate.
- We've delivered a small improvement in our water quality compliance (CRI) but remain disappointed not to achieve our PC. We're committed to achieving industry leading levels of CRI and are delivering our long-term plans to reach this.
- On leakage it is proving more challenging than expected to deliver the targeted reductions, and we are disappointed not to achieve our target in either operating area. We are pleased, however, to have beaten our target for responding to customer reported visible leaks.

- In late November 2021 Storm Arwen resulted in widespread and sustained power outages across the North East – triggering a civil emergency. The power outages also affected our ability to provide water to a number of our customers. Consistent with the terms of our three performance commitments for Interruptions to Supply, we have made a representation to Ofwat for the majority of the impact of the Storm to be excluded from our reported performance. Should Ofwat accept this, we expect to incur a small penalty for the year across our three interruptions measures of £0.57M.

- Our sewer flooding improvement plan has continued to deliver results, with key initiatives making significant and quantifiable impacts in the areas they are targeting. We have significantly outperformed our PC in repeat sewer flooding but our targets for sewer flooding are challenging and we have more to do to achieve our goal.

- We remain committed to our ambition to have the best rivers and beaches in the country, and recently published our **Vision for Coasts and Rivers**. We continue to beat our PC for Pollution Incidents and achieve our PC for Bathing Water Quality. We are disappointed to marginally miss our target for Treatment Works Discharge Compliance, however, are delighted to retain our 4-star company status in the Environmental Performance Assessment (EPA) from the EA.

- We're also pleased to have again beaten our target (by a factor of three) for delivering Water Environment Improvements.

- Our performance overall has created a net reward of £2.534M, with a further estimated value of £3.996M related to C-MEX and D-MEX performance.

In addition to the commitments outlined in the table above, we have PCs to make sure we deliver additional investments for customers by 2025 including:

- Smart metering.
- Lead Pipe Replacement.
- Delivery of our water and wastewater resilience programmes.
- Howdon Sewage Treatment Works Expansion.
- Cyber Resilience.
- Drainage & Wastewater Management Plans (DWMPs).

While progress for Smart Metering and Lead Pipe replacement (which require access to customer properties) has been slower than expected due to the pandemic, we remain confident of delivering our commitments by 2025. We are also on track with delivery against our wastewater resilience programme, our resilience investment at Howdon, Cyber Resilience, and DWMPs.

OUR 2021/22 PERFORMANCE IN DETAIL

Some of the measures are 'common' across the water industry and some are 'bespoke' to us. This is flagged next to each measure.

THEME ONE: UNRIVALLED CUSTOMER EXPERIENCE

OUTCOME 1: our customers tell us we provide excellent customer service and resolve issues quickly

AMBITIOUS GOAL: Deliver world class customer service

- Ofwat's Customer Measure of Experience (C-MeX) – common
- Response time to written complaints – bespoke
- Ofwat's Developer Services Measure of Experience (D-MeX) – common

Customer Measure of Experience (C-MeX) position - PR19NES_COM01

This is an industry comparative measure, defined by **Ofwat**. As such, the ranking position is more relevant to report on as opposed to the absolute score.

We are absolutely delighted to have achieved our ambition of being in the top two companies for C-MeX, the industry-wide measure that provides a holistic comparison of companies' customer satisfaction (CSS) and customer experience (CES) performance.

The table below shows our industry ranking for CSS, CES and overall C-MeX across the year.

TABLE 1

	CSS	CES	OVERALL C-MEX
Q1	9th	5th	8th
Q2	3rd	3rd	1st
Q3	5th	1st	1st
Q4	1st	1st	1st
OVERALL			2nd

We are passionate about engaging with our customers to understand how they want us to deliver world class customer service. Our focus remains on getting things right first time, fast time, every time. We know our customers really value this and we always work hard to achieve it.

After a difficult start to 2021/22, our 3,038 employees pulled together across the business to turn performance around and deliver a fantastic overall result for the year through relentless hard work and a real obsession with customer service – this is reflected in our 2022 Great Place to Work scores. Over 2,500 of our people took part and 70% said that NWG is a great place to work.

To improve CSS scores, our focus has been on improving customers' experiences when they do get in touch. Where written complaints are received, we take a 'phone first' approach and always try to contact our customers by phone before following up in writing. This makes sure we fully understand their concerns and that they are satisfied with our proposed resolution.

We have put in place robust cross-functional processes to make sure complaints are resolved to customers' satisfaction as swiftly and consistently as possible. This includes a series of regular review meetings with our customer, water, wastewater, and billing teams.

In relation to CES, we continue to promote the great work we do through our Just Add Water integrated marketing campaign and have ramped up visibility of this in our local communities, promoting the ways in which we can offer help with bills to our customers who are struggling to pay.

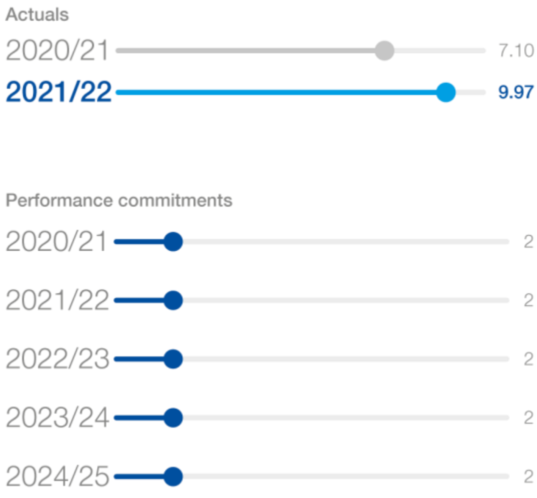
We've offered at least five contact channels throughout the year, and at least three of them were digital. Examples of our channels include voice, automated interactive voice response (IVR), email, webform, website, app, social media, and messaging.

We can earn a reward for high performance if we meet each of the following three criteria:

- We are one of the top three performers by C-MeX.
- We are at, or above, a cross-sector threshold of customer satisfaction performance based on the all-sector upper quartile (ASUQ) of the UK Customer Satisfaction Index (UKCSI).
- We have lower than the industry average number of household complaints (per 10,000 connections).

We await Ofwat's confirmation on the level of our C-MeX reward factoring in the three criteria above but expect this to be approximately £3.12M.

Response time to written complaints (days) - PR19NES_BES03



We have not achieved our target.

Our customers told us that the speed with which we respond to complaints was more important to them than minimising incidents. This is a bespoke PC.

This measure uses CCW's definition of a written complaint, which covers complaints via post, email, web, or fax that are responded to within the reporting year. We're committed to responding to a minimum of 90% of written complaints within one working day. To encompass that level of service, and to maintain appropriate focus on complex complaints which cannot be responded to within one day, we set our PC to two working days for 2020-25. This has proven to be an extremely stretching target.

We failed to achieve our target, in part because only substantive and full responses are included in the figure. Covid-19 has had an impact on response times, particularly from an operations perspective when investigations are needed. Most complaints we receive are complex and require in-depth investigations and/or further work to resolve the issue. If we were to include holding responses the current response time is around five working days.

Our response time to wastewater complaints is poorer than that of water and billing complaints. This can, again, be explained through the fact that wastewater issues are largely more complex and take longer to fully investigate and resolve.

While we are disappointed to not achieve our target, we are confident that we are ultimately working with our customers to resolve issues to their satisfaction. Customers give good feedback in terms of how we resolve their issues, and they are complimentary when they do speak to us. They also tell us that if we keep them informed, they are happy for resolution to take that little bit longer to achieve the best outcome.

We are working hard to not only reduce the number of complaints that we receive but also to put in place robust processes which will allow us to improve response times.

Examples of feedback from a satisfied customer whose complaint took longer than two days to resolve:

Summary:- A loose drain cover was causing noise disturbance and impacting on the mental health of the customer. We investigated the issue and resolved it.

I am writing to inform you of the excellent customer care I have received from one of your team members Sarah. I emailed 20 March to report a noisy drain cover in the road near our property which has been keeping me awake for months and impacting on my mental health due to lack of sleep. The following day I received a call from Sarah who was very understanding and said she would get on to it straight away to see what she could do to get this dealt with asap. Sarah kept me informed of her progress and within the week the Groundworkers had fixed the drain. I have now been able to sleep, and I cannot thank Sarah enough for her understanding, her prompt action and professionalism. I would be most grateful if you would pass on my gratitude and appreciation to Sarah, her customer care has been above outstanding.

Developer Experience (D-MeX) position - PR19NES_COM02

This is a financial **common PC** for developer customers looking at a range of Water UK metrics, as well as feedback from customers.

We finished in 5th place and have improved on our position from the previous year with an overall score of 88.56, which is above average. We expect to receive a small reward of approximately £0.876M once Ofwat has finalised figures. We scored a qualitative score of 80.26 and a quantitative score of 93.62.

To make sure we check that our performance against the selected Water UK metrics is an accurate reflection of our underlying performance in the reporting year, first stage validation is carried out by data providers and then assured by our Customer Experience Manager (D-MeX). Validation also includes referring selected performance data to our Developer Services Regulation & Compliance Manager. In addition, there is periodic audit of performance from our Internal Audit team.

To improve on our performance, we made three significant changes to our processes.

Firstly, customer research told us developer customers wanted to speak directly to the Developer Services team. They told us they didn't want to repeat themselves when queries were redirected from our Contact Centre, but also because they would have more knowledge of the developer services processes and understand technical detail.

In line with our approach to getting things right, first time, fast time, every time – we took inbound developer calls out of our Contact Centre and directed them straight to the Developer Services team, significantly improving their customer experience.

We also co-created, with some of our developer services customers, an online portal for water and sewerage connections. Applications can now be submitted online along with supporting documents. Functionality has been included to allow developers to see all their applications in one place, track their progress, make payments online and engage with our people so we can best support them with advice as necessary. The portal includes articles and information relating to frequently ask questions, which allows customers access to self-help themselves if that is their preference.

Feedback is positive:

"It's fantastic piece of kit and it will give me so much more visibility of my applications."

"This will make my life so much easier"

Finally, we recognised that performance in our Northumbrian operating region was poor in comparison to our Essex and Suffolk operating region in relation to water service connections. To learn from the good performance in Essex and Suffolk we established a working group that reviews any individual service connection failure and carries out a deep dive to understand what went wrong, and what learning we can take to improve future performance. The group has also started reviewing end to end processes to understand which activities can be carried out in advance or ran in parallel.

Case study: Top water company in UK customer satisfaction measure

Northumbrian Water (NW) ranked first place in the water industry and fourth place against all utilities in the latest Institute of Customer Service's UK Customer Satisfaction Index (UKCSI).

The UKCSI is the national barometer of customer satisfaction. Driven by 45,000 customer responses and covering 13 sectors of the economy, it gives a unique insight into the quality of customer service in the UK as a whole and is based on a six-monthly online survey of consumers which is demographically representative of the UK population.

This year NW ranked top water company and fourth utility while Essex & Suffolk Water (ESW) ranked seventh water company overall and thirteenth in the utilities sector. These are our highest results to date and ESW was also named as one of the most improved companies.

We are very proud of these results and of the hard work by our teams, we will continue to build on this top performance for our customers.

Case study: Storm Arwen

Storm Arwen was an unprecedented and extreme weather event at the end of November 2022 affecting many of our customers and our people and assets.

Despite having to work in extreme conditions, with lots of employees going home to no power in their own homes, they still delivered unrivalled customer experience by putting our customers' needs first.

Compassionate Craig and his heroic actions

Driving home from his shift at Fontburn Water Treatment Works, Craig, one of our Production Operators came across a family whose car had been hit by a fallen tree. Realising the risk that more trees were in danger of falling and that the people were in shock, our caring team member took them to a nearby Travelodge for the night and kept in touch with them to make sure they were ok after the incident.

Mr S wrote to our Customer Care team as he wanted to make sure Craig was recognised for his actions. He said: "If it wasn't for his quick thinking and selflessness, the situation would have been very different as we weren't thinking clearly due to shock."

Prioritising vulnerable customers

Residents at Waskerley Reservoir were left without power and drinking water during the storm. Our rural water team supplied them with bottled water as they had no indication when Northern Powergrid would be able to restore power due to the damage on the network caused by the storm and freezing conditions.

We then took on a challenge and discussed the potential to fix an old, fixed site generator unit to help supply the elderly vulnerable residents with electricity. Trevor from our Maintenance team rose to the challenge of recommissioning a fixed-site generator which had been abandoned over ten years ago. Armed with his tools and 20 litres of diesel, he worked on the generator and was able to get the unit running.

The team then started checking the electrical circuits were safe to be used and communicated with the residents to let them know what was happening. By early afternoon the team had fully checked the system and made sure it was safe to use, fully restoring power to the residents at Waskerley Reservoir!

This was a great effort from all involved and our people really showed their One team, Customer focused and Innovative spirit! The residents at Waskerley Reservoir are mainly elderly people who were very thankful to the team for their hard work and were delighted to have power back on, as well as their water supply.

OUTCOME 2: Our customers say they feel informed about the services we provide and the importance of water

AMBITIOUS GOAL: Give every single customer the opportunity to have a strong voice and engage with us, with at least 2m customers participating by 2025

Listening to our customers and having a deep understanding of what they expect from us now and in the future is important to us. We genuinely put our customers at the heart of everything that we do.

We listen to our customers daily through operational contact that we have with them, including how we use Rant & Rave to understand how we can continually improve the services that we provide based on customers' feedback. Whenever we have big decisions to make about changes to the services we provide and how we provide with them, we seek our customers' views so that we can make sure we provide services in the way that they want us to. Specifically, for PR24 business planning, we have developed a bespoke programme of customer research and engagement that will allow us to seek our customers' views on key elements of our future plans, including our long-term strategies.

Digital contact via our website, app and automated phone system spiked during the first Covid-19 lockdown of March 2020 and has not returned to pre-Covid levels. Contact via our website and app is now consistently higher than contact by phone. We believe this demonstrates a permanent change in our customers' contact preferences and are aiming for 72% of contact to be digital by the end of 2022. To support this, we're regularly releasing new features and upgrades to both our website and app. Our digital customer experience roadmap is based on customers' feedback and priorities and so reflects what matters to them:

TABLE 2

WEBSITE	APP
• New Priority Services Registration form • New confirmation emails and SMSs for all customers when a home move is completed • Personalised 'bill explainer' videos • Personalised water saving calculator • Revamped meter read submission form • Option to make payments online using Apple Pay or Google Pay	• Request call back for water savings visit • Water usage comparisons • Water saving tops • Monthly medals

We're confident that our customers are having a great experience with us online. Our website consistently achieves a world class NPS (Net Promoter Score) score of +70 and in November 2021 we were a Silver Award Winner for Best Digital Customer Experience – Telecoms and Utilities at the International Customer Experience Awards.

Case study – Customers invited to have their say on £149M plan to upgrade the water network

We invited our customers to meet the team behind the first phase of a £149M project to upgrade and futureproof our water supply network across the south of County Durham and into Teesside.

'Project Pipeline: Durham and Tees Valley' includes replacing some sections of the network that are more than 100 years old and installing 28km/17 miles of new pipes, connecting Lartington Water Treatment Works with Shildon to make sure around 200,000 customers continue to receive clean, clear, and great tasting tap water, each day.

Our customers were given the opportunity to meet the project team to learn more and discuss the plans at a series of community events before we submitted planning application because we recognise the importance of customers understanding our aims for improving and futureproofing their water supply, and how we plan to do it.

We also set up a web page for those who couldn't attend the events so that they too could have their say.

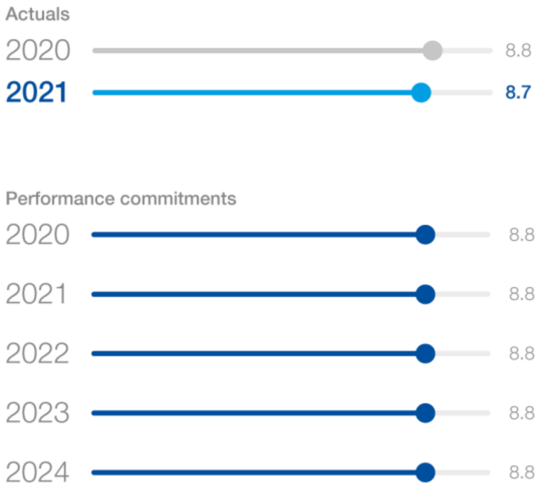
Across the four customer engagement sessions, 78 customers, including a reporter for the Teesdale Mercury, attended. This gave us an opportunity to talk face to face with those customers and answer their questions and offer explanations and reassurances where they had concerns.

Additionally, the attendance of the journalist, who took the opportunity to talk through the plans with the Project Manager, also allowed us to gain further media coverage of the plans in the local area.

OUTCOME 3: our customers say we are a company they trust

- Customers' perception of trust (independent survey) – bespoke

Customers' perception of trust (independent survey) - PR19NES_BES05



We have not achieved our target.

This measure is the mean customer satisfaction score out of ten from our independent customer tracking survey. The survey engages 500 household customers each quarter. There are no financial incentives associated with this bespoke PC.

Our trust score dipped very slightly to 8.7 out of 10, which is marginally below our PC.

We want to maintain our usually high score in this area. As a provider of essential services, being trusted is critical – our customers should always have highest levels of confidence in the services we provide. Our 'Just Add Water' campaign focuses on increasing brand awareness, and we share our good news stories with the media and on social media because we want our customers to know us as a valued and respected partner in the communities we serve.

In CCW's Water Matters report 2021/22, we were disappointed our trust score in our ESW operating region dropped to 7.29, but this is still above average across all water companies. In our NW region, our trust score was 7.7, lower than the previous year but significantly higher than average for all water and sewerage companies. 73% of participants agreed we care about the service we give to customers (NW) and, this was significantly higher than average for all water and sewerage companies.

While we are disappointed to have dipped slightly compared to our usually high performance, however, another year of uncertainty has mean that distrust is now the default across the globe (**Edelman Trust Barometer 2022**).

Case study – Responsible practice recognised in water industry first

We became the first and only water company to achieve the Good Business Charter (GBC) accreditation, which awards ethical businesses by measuring their behaviour over 10 key components.

The Good Business Charter, which is supported by the Confederation of British Industry (CBI) and the Trades Union Congress (TUC), is an independent not-for-profit organisation that encourages and recognises responsible business practices including real living wage, fairer hours and contracts, employee well-being, employee representation, diversity and inclusion, environmental responsibility, paying fair tax, commitment to customers, ethical sourcing, and prompt payment.

We were absolutely delighted to be recognised, an achievement which is testament to the efforts our teams put in to help us reflect our values as we provide a service people couldn't live without.

We care passionately for our customers, our communities, our employees and our environment and we're proud of our commitment to put responsible and ethical working practices at the heart of everything we do such as our commitments to become carbon neutral by 2027; to eliminate water poverty in our operating areas by 2030 and to help prevent the equivalent of four billion plastic bottles ending up as waste by 2030.

Since 2008, we have cut emissions from 303,000 tonnes of Co2 to 56,000 in 2020 and more than 1,800 of our sites are already powered by renewables.

Our people have also taken time to give something back, with 235 organisations supported annually through our employee volunteering scheme, Just an Hour. We also participated in the Laptops 4 Kids scheme, donating hundreds of laptops and computers to help support children learning from home during the coronavirus crisis.

Jenny Herrera, CEO of Good Business Charter, said: "We are so pleased to welcome Northumbrian Water to our rapidly growing community of accredited organisations.

"As such a leader in responsible business behaviour it's great to have them join the GBC and we hope that they seek to inspire many other businesses to follow suit."

The GBC accreditation adds to other recognition for ethical practice for us as we were also named the most ethical water company in the world for the tenth time in this year's World's Most Ethical Company List, published by the Ethisphere Institute. We are one of only five UK companies and the only water and sewerage firm in the world to be featured.

OUTCOME 4: Our finances are sound, stable and achieve a fair balance between customers and investors.

There are no PCs under this Outcome. However, we stated in our Business Plan that we will deliver the following for customers under this Outcome:

- We are financially resilient
- We have a financially stable Business Plan
- We plan our finances for the long-term
- We raise debt finance efficiently
- We share any efficiencies we make with customers
- We pay our taxes
- We procure responsibly

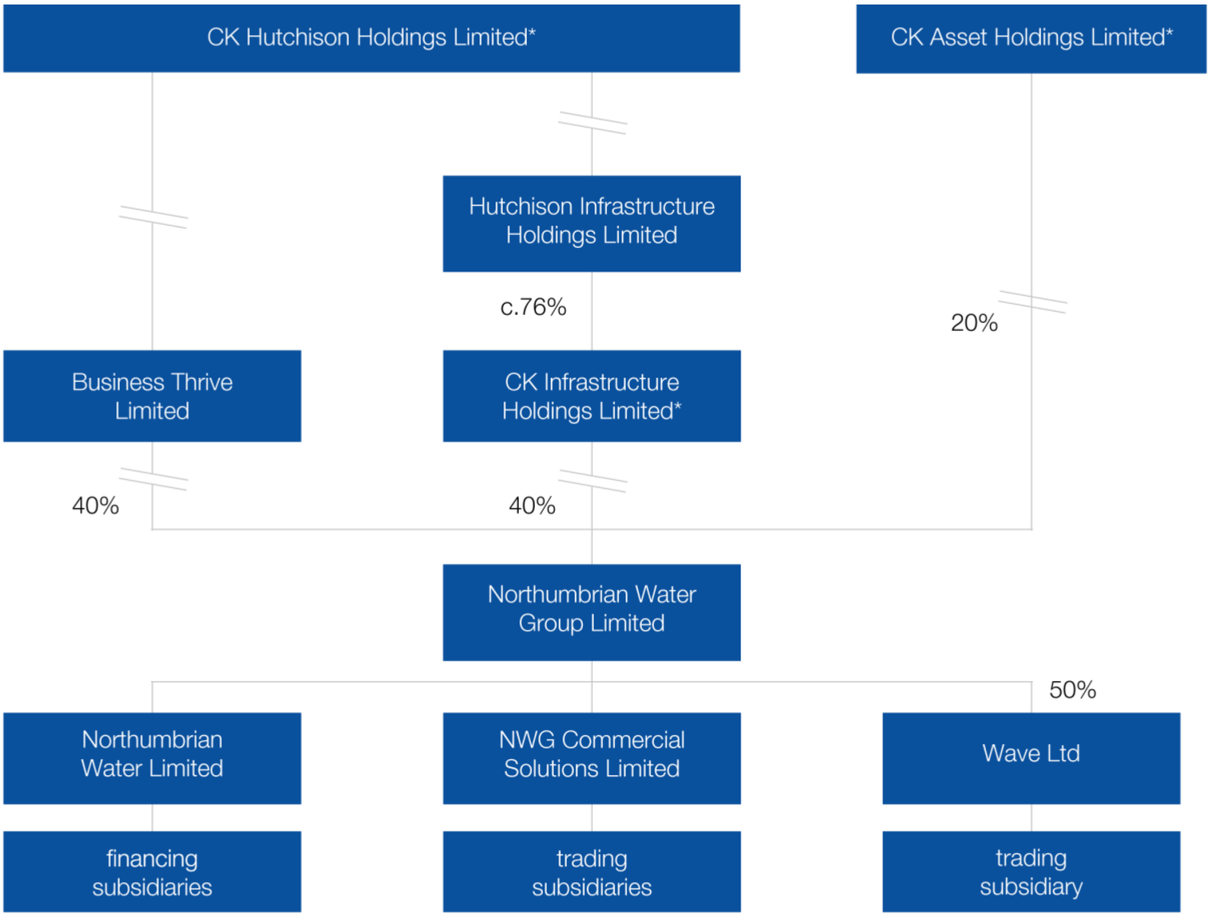
We have longer term plans to allow us to operate our business sustainably and we manage our finances in the same way to make sure they remain sound and stable. It is important that we maintain a fair balance between our customers and investors to keep our customers' bills as low as possible while continuing to attract capital to finance the investment necessary to maintain and enhance our assets. Striking this balance shows our customers they can have trust and confidence in us.

Financial structure and resilience

Like most companies, we are financed through a combination of money from shareholders, profits, and borrowings. NWL is a wholly owned subsidiary of Northumbrian Water Group Limited (NWGL), which is majority owned by companies in the CK Hutchison Holdings Limited (CKHH) group, based in Hong Kong, who are responsible and committed investors in our business.

The chart below shows the summarised corporate structure of the Group. The chart shows the principal intermediate holding companies, which are wholly owned unless otherwise shown. On 21 May 2021, CK Asset Holdings Limited acquired the Li Ka Shing Foundation's indirect interest in NWGL.

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

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

The Board places a strong focus on maintaining long term financial resilience. We maintain a detailed five-year plan that is updated regularly and formally reviewed by the Board annually. This is underpinned by a commitment to maintaining an investment grade credit rating, as assessed by independent credit rating agencies Moody's and Standard & Poor's.

The Board has assessed our long-term financial resilience over an eight-year period, to the end of the next price review cycle. This included stress testing our plan against our most significant risks and uncertainties. The Board's assessment is set out in our long-term viability statement on **page 129** of this report.

Customer bills

The revenue that we can charge to customers is set every five years through the regulatory price review process. We aim to keep our bills as low as possible while still allowing us to invest in sustainable and resilient services and allowing a reasonable return to our investors. For 2020-25 we proposed a 15% reduction in customer bills, the largest in the sector.

We operate and finance our business as efficiently as we can on behalf of our customers, and we share any efficiencies we make with them. We aim to be at the frontier of cost efficiency which benefits all water and sewerage customers in England because it drives the efficiency frontier, against which all companies are benchmarked, to new levels.

Customers benefit from sharing the cost efficiencies we make in each price review period. Any outperformance of the totex regulatory allowance for 2020-25 will be shared with customers, resulting in lower future bills. They also benefit from efficiencies in financing costs so that customers do not pay any more than is necessary.

Long term borrowings

We invest around £1M each business day in maintaining and enhancing our asset base to improve services for our customers. The scale of this capital expenditure means that we need to supplement the money we receive each year from our customers through their bills by borrowing additional money from banks and debt markets. Our investment grade credit ratings and strong capital structure help us to obtain financing at competitive interest rates, making sure our financing costs stay as efficient as possible for customers.

We borrow in a controlled and sustainable manner to make sure we can deliver substantial investment in our asset base without this leading to a significant increase in customer bills. We spread the financing cost of our investment and manage the borrowings over long periods of time, sometimes more than forty years. This means both current and future customers help to pay for the investment. As a result, bills are more stable and sustainable for customers, with a fair balance of contributions between generations.

Our borrowings range from short-term working capital financing to long term bonds, typically listed on the UK Stock Exchange. Our borrowings reflect a mix of fixed rate, providing stable interest costs, and inflation-linked, to match our inflation linked revenues. By maintaining a well-balanced debt portfolio, we can better manage risks of adverse movements in inflation and interest rates and minimise volatility on customer bills.

Our total borrowings at 31 March 2022 amounted to £3.17bn, as reported in **Table 1E** of this report.

Shareholder returns

Our shareholders have provided the necessary capital and financial backing required to run the business and in return they receive a dividend return on the capital they have invested. The dividends we can pay are driven by our financial and operational performance, the level of service provided to our customers and employee's interests. This means that the returns our shareholders receive are not guaranteed from one year to the next and we paid no dividends in the year 2020/21 as a result of the impact of the PR19 Final Determination and the uncertainty surrounding the CMA redetermination process and the impact of Covid-19. There are many significant risks associated with the business and it is the shareholders rather than our customers who carry the weight of these risks.

We make sure the dividends are set at a level which is sustainable, remains consistent with our investment grade credit ratings and allows us to continuously put money back in the business. Our dividend policy is described on **page 175** along with an explanation of how the directors have applied the policy in the year.

Taxes

Both NWL and our parent company, NWGL, are based in the UK and pay corporation tax to the UK Government. We are transparent about our tax arrangements and present our Tax Strategy on **page 154** of this report, as well our website. This sets out our responsible approach to tax matters, under the oversight of the Board and its Audit Committees, and our constructive relationship with HMRC.

Our customer bills include an allowance to cover the corporation tax we expect to pay, like other operating costs. This allowance reflects the benefit of tax reliefs that are available to us, such as capital allowances on our investment in our assets, which helps keep customer bills down.

Responsible procurement

Our responsible approach to procurement is described on **page 123** of this report.

THEME TWO: AFFORDABLE AND INCLUSIVE SERVICES

OUTCOME 5: Our customers say our services are good value for money and we work hard to keep water and wastewater services affordable for all

AMBITIOUS GOAL: Eradicate water poverty in our operating areas by 2030

- NWL independent value for money survey – bespoke
- Percentage of households in water poverty – bespoke
- Awareness of additional financial support – bespoke
- Satisfaction of customers who receive additional financial support – bespoke
- Awareness of additional non-financial support – bespoke
- Satisfaction of customers who receive additional non-financial support – bespoke
- Priority services for customers in vulnerable circumstances – common
- Reach of Priority Services Register – common
- Review of Priority Services Register – common
- British Standards Institute Award for Inclusive Services – bespoke
- Percentage of void household properties – bespoke
- Gap sites – bespoke

NWL independent value for money survey - PR19NES_BES30

We have not achieved our target.

This customer survey is a bespoke measure which is reputational only.

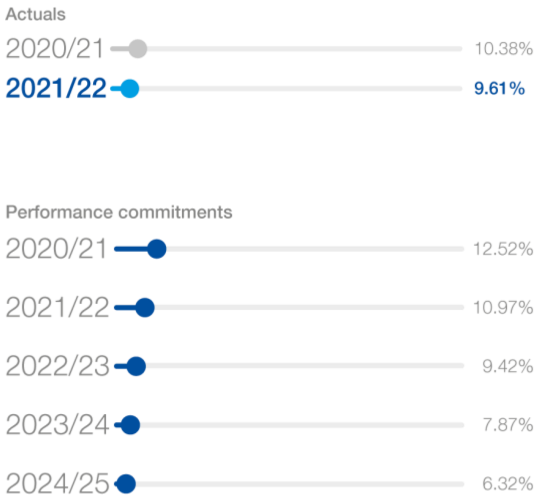
Our 2020 score of 8.3 out of 10 was the highest we've received in the last six years. This year the average satisfaction of customers that the services we provide represent good value for money decreased very slightly by 0.1 to 8.2 out of 10 meaning we were just short of our PC.

However, given the affordability challenges our customers are facing, we are pleased to still achieve a high result and continue to promote the value of water through our Water's Worth Saving campaign.

In CCW's Water Matters report 2021/22, we were pleased to score 83% in our NW region for satisfaction with value for money of sewerage services, which is significantly higher than the average water and sewerage company, and 81% for satisfaction with value for money of water services. 71% of participants agree charges are fair, again significantly higher than average. In our ESW region, 73% of participants were satisfied with the value for money of their water charges which was above the average score of 71%.

Despite the recent bill increase, our bills (in NW region) are still the lowest water and sewerage bills in England.

Percentage of households in water poverty - PR19NES_BES06



We have achieved this PC.

This is a non-financial bespoke measure. We have an ambitious goal to eradicate water poverty and are delighted to have beaten our target this year to reduce water poverty further.

This great result has been achieved despite the difficulties recent times have presented us with. Two years on from the economic impacts of the global coronavirus pandemic our customers are experiencing the highest inflation rate of the past 30 years and significant increases to the cost of living in the form of higher energy, food, and fuel prices. The end to the £20 uplift in Universal Credit in October 2021 hit some customers with hard-pressed household budgets, driving an increased reliance on foodbanks and difficult decisions about what to go without.

Water and sewerage services should be affordable for all our customers, whatever their circumstances, and they should all have equal access to an unrivalled customer experience. In April 2022 we introduced our first water bill increase in three years, to secure important investments to networks, and reflecting the outcome of the recent CMA appeal process. Our charges remain lower in real and nominal terms, than in 2019/20, and our customers on average pay £1 a day for water and sewerage services.

We remain focused on getting support to those who need it most and given the economic climate and expected investment demands at the next price review, expect to continue this focus into the future. Debt support agencies we're in contact with are seeing increased contact from people struggling to pay their bills, which we expect to flow into increased applications for financial support.

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

- During 2021/22, the number of customers benefitting from financial support through our SupportPlus tariff increased by 52.4% to 46,229. Our company-funded tariff also increased by 21.9% this year, which means we now have 10,803 customers benefitting from bill reductions of up to 50%. We've also seen a steady increase in our WaterSure numbers, which increased by 15.2% this year to 10,773.
- We can offer eligible customers discounts of up to 50%, either through our affordability tariffs or WaterSure. 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. By the end of March 2022, we were supporting 67,805 customers with a reduced bill.

"Thank you so much this will make such a difference to us".

- 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.
- Supporting customers to switch to a water meter when this can save them 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.

  "I've filled out the form and found that it was intuitive, asked questions that were easy to quantify and produced a report that was clear and easy to understand."

- In January 2022 we relaunched the payment break service (initially launched in March 2020 for Covid-19) in response to the increased cost of living, to support customers experiencing new income shocks. Since the first lockdown, we've given nearly 8,200 customers a payment break. We are supporting customers at the end of their payment breaks with extended arrangements and spreading their remaining balance over the remainder of the billing year. 78% of the customers whose payment break has completed are maintaining their plans or have already cleared their balance. We are offering support to the customers who are in arrears and by January 2021, 412 customers were benefitting from a 50% reduction in their bills.
- The Breathing Space legislation came into force on 4 May 2021 and gives someone in problem debt the right to legal protections from their creditors, usually for up to 60 days. To date we have placed holds on 1,530 customer accounts with a total debt value of £1.86M. While a customer is in Breathing Space, we communicate with them and their debt advisor about our SupportPlus options and ways we can help.
- Once a Breathing Space has ended (either after 60 days or earlier), 18% of our customers have made a payment, 9% have moved to an insolvency route, 32% have agreed a payment arrangement and 14% have entered our affordability process. These trends have remained consistent. If a customer does not come out of Breathing Space with a solution, we proactively contact the customer to encourage them to talk to us for further support.
- We put protections in place for any customer who has been in a Breathing Space to make sure our future communications recognise that they have experienced problem debt.
- In 2021 we were the top water company for referrals to independent debt charity, StepChange. We made 2,848 referrals, a 38% increase in our referrals rate. This was a fantastic achievement in a year where StepChange saw referral numbers drop across the charity. The Relationship Manager said:

  "I believe this is down to the time and effort you put in with your customer service teams and clearly shows how committed you are to helping clients in financial difficulty."

This work has been part-funded by the interest income earned on unutilised tax funding from the 2015-2020 price review, as we committed in our PR19 Business Plan, although the value of interest earned was very small due to the extremely low rates of interest receivable.

We are proud to be part of the core Development Group, led by Defra to create a single social tariff for England and Wales, and are playing an active role on several sub groups including economic modelling, operations, and communications. If implemented the tariff will make sure no-one has to spend more than 5% of their income after housing costs on water bills, something we have publicly supported as the first water company in the UK to commit to eradicating water poverty.

Case study – Data sharing with the DWP to move customers out of water poverty

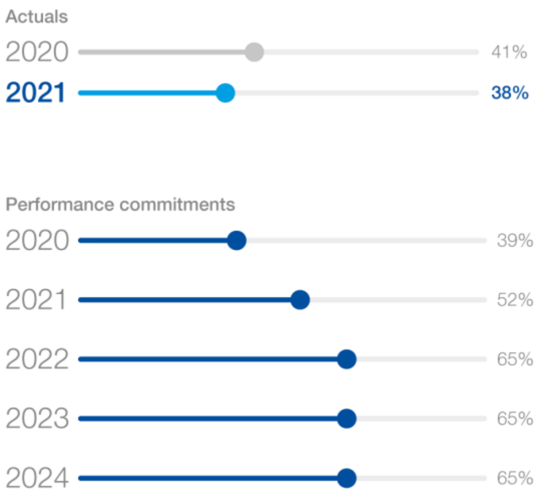
In March 2021, we were an early adopter of data sharing with the Department for Work and Pensions (DWP), to help identify customers in need of financial support. We securely share customer data with the DWP who matches it against its records to let us know if a customer is in receipt of certain benefits. This allows us to identify customers who may be eligible for our WaterSure and Pension Credit tariffs.

This approach allows us to provide an amazing proactive service to our customers, applying discounts to their water bill and moving them out of water poverty, without the need for them to take time and effort applying to us.

To date we have identified an additional 3,740 accounts we can place onto WaterSure and 9,240 onto Pension Credit. We have automatically applied these discounts and sent reduced bills.

In March 2022 data matching was extended to include Universal Credit, this will increase the match rate for 2022/23.

Awareness of additional financial support - PR19NES_BES02a



We have not achieved our target.

This bespoke PC measures customers' awareness of the additional financial support we offer. This includes both discounted bills and writing off customer arrears for eligible customers. We measure awareness in quarterly surveys with customers. Awareness of additional financial support dropped to 38%, lower than our target of 52%.

We are disappointed with this result, especially as we have done a great deal of work in the last two years to help our customers who have found themselves in financially difficulty. We will continue to focus on supporting our customers who struggle to pay and see this as critical given current economic and financial challenges. Below, we share some of the ways we are working to improve performance in this area.

- We are integrating a sustained campaign across internal messaging, external communications, digital and social media, marketing, and stakeholder engagement acknowledging the wider affordability challenges being faced. We brought together our focus during Customer Service Week (4-8 October 2021) with a relaunch of 'Water without the Worry' where we focused on promoting the support services we offer and encouraged our customer service colleagues ('Water without the Worry' Warriors) to use a specially designed social media tool kit to promote our services on their local social media groups.

In Q1 of this year our integrated advertising campaign has focused on the message 'help with bills' and we've communicated a wide range of free support, especially for those who were unexpectedly affected by the pandemic and people who were already having financial difficulties. We continue to provide our customers with guidance on how we can help make sure their water bills are more affordable.

- When furlough ended on 30 September 2021, we emailed our customers to let them know about the financial support we have available, should they be struggling to pay their bills. The email detailed all the different ways we can help, and this achieved a fantastic 68% open rate with over 28K clicks to our websites. We're promoting this message as much as possible across all our channels.

- Over Christmas 2021 we reached out to stakeholders asking them to share information about our financial support services with their local communities and partners. We also provided a social media toolkit with examples of Tweets, Facebook, and LinkedIn posts for them to use.

- Our unmeasured annual bills, which were delivered during February and March 2022, made use of both the envelope and letter to raise awareness of our support and encourage engagement. The front of the envelope presented a clear message for customers who may be struggling to pay their bill. The back of the envelope asked customers if they receive Pension Credit or have a household income below £16,480 (the messages that receive highest click through rates in our email marketing and Google advertising) and invited them to scan a QR code or to visit our website to see if they qualified – a clear call to action. On the front page of the bill, we included a QR code to direct customers to our full digital solution for affordability and vulnerability. The back page of the bill includes information for customers who need help paying and gives details about our priority services.

Case study – Reducing customer effort in partnership with Anglian Water

We have been working with Anglian Water to identify how we can allow for a one stop application for tariff applications for our customers where we bill them for water, and Anglian Water bills them for sewerage.

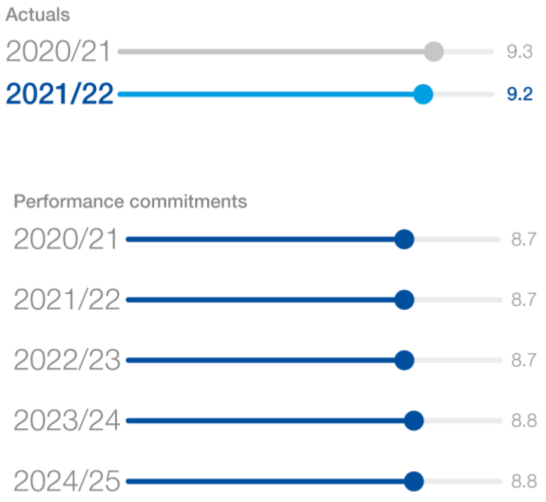
Anglian Water uses Policy in Practice's benefit assessment tool to qualify customer applications for tariffs and we have now agreed for a joint application process to be built within the tool. This will give the added benefit of an income maximisation check as part of the application.

Policy In Practice have started the build, and once live customers applying either with us or via Anglian Water will be advised if they are eligible for either scheme. With their consent, their application will be sent to both companies to finalise the application.

We also amended our data sharing agreement with Anglian to allow for them to share new WaterSure applications as the eligibility criteria is consistent. This is a leading approach within water companies, and an exciting opportunity to demonstrate collaborative working, as recognised by CCW, the voice for water customers.

Steve Grebby, Policy Manager at CCW, said: "It's great to see Essex & Suffolk Water working with Anglian Water to make it much easier for customers in our region to get the maximum help they are entitled to with their water and sewerage bills. The rising cost of living is putting intense pressure on low-income households which is why it's vital water companies make it as simple as possible for customers to access help when they need it most."

Satisfaction of customers who receive additional financial support - PR19NES_BES01a



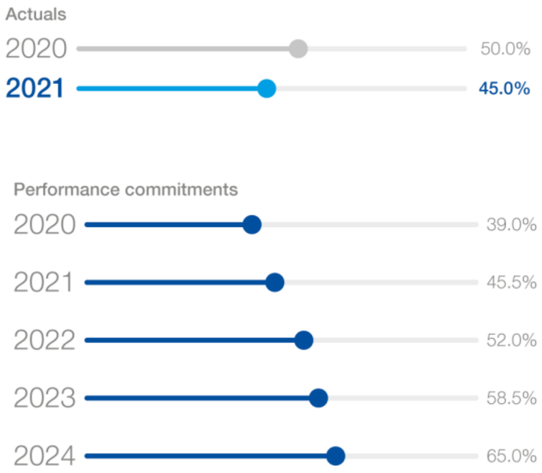
We have achieved this PC.

This bespoke, reputational only PC is designed to make sure we provide high quality financial support to household customers that are signed up to one of our SupportPLUS tariffs or WaterSure. The score is determined as an annual mean from telephone surveys, during which a total of 1,000 customers who are receiving financial support for either water arrears or ongoing charges are asked to rate their overall satisfaction with the services we provide.

We continued to beat our target of 8.7 with a high score of 9.2.

We work hard to make sure customers receiving financial support are satisfied with the services they receive (via a satisfaction score out of 10), indicating that we are delivering a quality approach to supporting these customers.

Awareness of additional non-financial support - PR19NES_BES02



We have not achieved our target.

This bespoke PC measures customers' awareness of the non-financial services we offer as part of our Priority Services Register. We've achieved 45% awareness, just 0.5% under our PC.

In Q1 of 2022 we asked 250 customers who are on either our Support Plus or WaterSure tariffs to rate their satisfaction and to also tell us why they gave their score. The top reasons were:

TABLE 3

SUPPORTPLUS (162)	WATERSURE (88)
• No problems (29%) • Satisfied / happy with them (25%) • Helpful / supportive (22%) • Get a reduction / capped bills / save money (18%) • Good scheme / beneficial (10%) • They do a good job (8%) • Accommodating / flexible with payment issues / payment plans (8%) • Good / affordable / fair price (6%) • Reassuring to have (4%) • No supply problems (4%) • Friendly / polite staff (4%) • Handle issues really well (4%)	• Get a reduction / capped bills / save money (31%) • No problems (27%) • Reassuring to have (18%) • Good scheme / beneficial (14%) • Satisfied / happy with them (13%) • No supply problems (11%) • Helpful / supportive (10%) • Good customer service (10%) • Good / affordable / fair price (6%) • Easy to apply / set up (6%) • Quick to respond / resolve issues (5%) • Good quality water (5%) • They do a good job (3%)

Throughout this year, use of our websites has increased, as more customers are looking to self-serve. We designed a landing page to highlight our Priority Services and signpost customers to additional information.

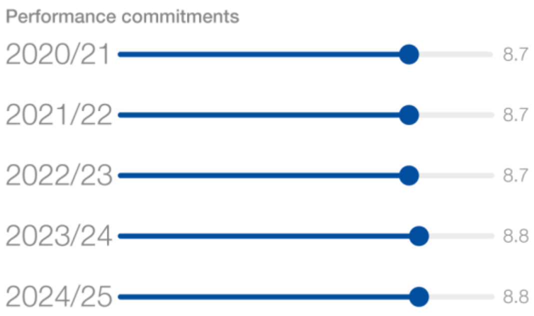
To raise awareness of the different Priority Services we offer, we've proactively completed contact campaigns with customers using more than two million targeted email communications as well as social media campaigns. The emails achieved a huge 65% open rate and generated 81,000 clicks through to the relevant pages of our websites. We have enhanced our social media messaging, focusing on situational, rather than service-based narrative to target and offer support to different customers group.

Using our PSR digital twin dashboard which details internal and external information about demographics, sign-ups to tariffs and PSR information to help us understand our customers better, we have been able to prioritise which segments to target who may need additional non-financial support. For example, segmenting pensioners, homes with young children, people living with health problems and households with an income below £16,105. From this information we've created a matrix of messaging by identifying with their needs rather than using generic messaging.

We've created a suite of digital adverts using these messages which are promoted online on websites, social media and using keyword targeted on Google. We also continue our outdoor advertising for Just add Water that will support these messages for customers who are not online.

We've also been using recent incidents and topical situations as a proactive opportunity to encourage customers to update their contact details with us, sign up for PSR, and promote online accounts (through email marketing and our social media channels). More than 2,700 people signed up to the Priority Services Register in one week following our communications about storms Eunice and Dudley.

Satisfaction of customers who receive additional non-financial support - PR19NES_BES01



We have achieved this PC.

This is a bespoke PC, which is reputational only. An independent market research provider has interviewed 1,000 customers. We were pleased to achieve our PC this year with a score of 8.7 out of 10.

In Q1 of 2022 we asked 250 customers who receive additional non-financial support services to rate their satisfaction and to also tell us why they gave their score. The top reasons were:

• No problems (26%)	• Good customer service (6%)
• Helpful / supportive (10%)	• Reassuring / what we need (6%)
• Quick to respond / resolve issues (8%)	• Alert customers to problems (5%)
• Good scheme / beneficial (8%)	• Satisfied / happy with them (5%)
• They do a good job (8%)	• Will supply bottled water so never without (4%)
• No supply problems (7%)	• Easy to contact / always available (2%)
• Handle issues well (6%)	• Proactive communication (2%)

Case study - SETTLD

Settld is a free, simple, and secure 'tell us once' end of life service. We introduced Settld on 1 February 2022. The service allows next-of-kin to send us, and all other companies, a death notification by completing just one form. Once a next-of-kin has completed a Settld form they are kept updated on the closure or transfer of all accounts through digital notifications in one place.

This drives a faster resolution and takes away effort and admin from the applicant, giving them more time to focus on what really matters. Settld users rate the service 4.9/5.

Priority services for customers in vulnerable circumstances - PR19NES_COM16

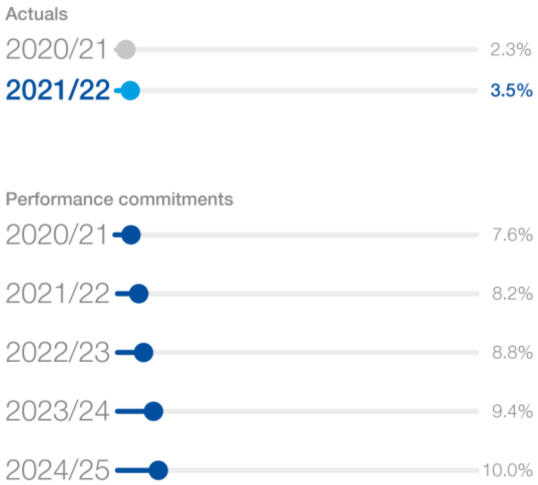
This is a common, reputational PC. Its purpose is to ensure a minimum standard across all companies for the number of households registered on the Priority Service Register (PSR) and for PSR data checking.

The PC has the following criteria:

- The PSR reach: percentage of households that the company supplies with water and/or wastewater services that are registered on the company's PSR.
- Actual contact: percentage of distinct households on the PSR that the company has contacted over a two-year period.
- Attempted contact: percentage of distinct households on the PSR that the company has attempted to contact over a two-year period.

To achieve compliance with this PC, all the reach, attempted contact and actual contact targets must be achieved.

Reach of Priority Services Register



We have not achieved this PC.

While we have not reached our target for the percentage of households on the PSR register, we have seen a significant increase in the number of customers who are benefitting from our PSR. More than 3.5% (69,255) of our households are now registered against our target of 7.6%. PSR membership figures include: communication (9,732), support with mobility and access restrictions (26,143), support with supply interruption (57,235), support with security (17,704) and support with other needs (27, 932).

In February 2022 we made PSR registration easier for our customers by offering a full self-serve option on our website. We offer a tick box list of all the services we offer so that the customer can self-select the services which are most appropriate for them.

We are working in partnership with UK Power Networks (UKPN), Believe Housing and Age UK North Tyneside to communicate the benefits of our PSR and to increase uptake. At the end of December 2021, we had 50,685 customers signed up to our Priority Services Register, an increase of 153% compared to December 2019.

In December 2021 we began the first phase of a PSR data sharing programme with UKPN, the company which owns and maintains the electricity cables and lines in our Essex and Suffolk operating areas. We now receive around 10-15 new applications a day from UKPN. We are manually checking and updating these new registrations at present, with the intention of moving towards full automation. Phase two, which will build the mechanism to extract PSR data from our CC&B system, to share with UKPN has started.

We have approached Northern Power Grid (NPG), which is equivalent to UKPN in our Northern area; with the aim of setting up an equivalent data sharing programme for our Northumbrian Water customers.

Believe Housing is one of the largest housing associations in the North East. Working in partnership we have added an additional 8,000 properties to our PSR. These are properties where Believe Housing has identified the occupiers as being vulnerable to an interruption to supply. We will approach other councils in our region to understand if this approach can be duplicated.

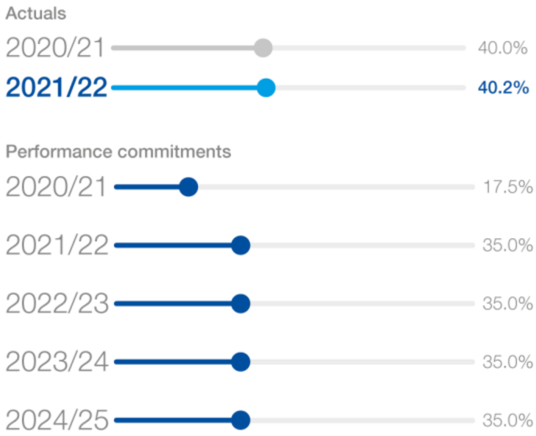
We know that our older customers are amongst those in the most need of extra support when we have an extended interruption to supply. Working in partnership with Age UK North Tyneside, we are completing a trial where we have sent letters highlighting the benefits of PSR and the range of support services offered by Age UK to properties with occupiers aged over 80 years of age. This trial has brought 4,500 new customers to our PSR. If extended this approach has the potential to add approximately 60,000 additional properties to the PSR.

Sonya Roe, Business Development & Marketing Manager at Age UK North Tyneside, said: “We appreciate that working with trusted partners helps us to reach more customers and share messages about the services we can provide to them.

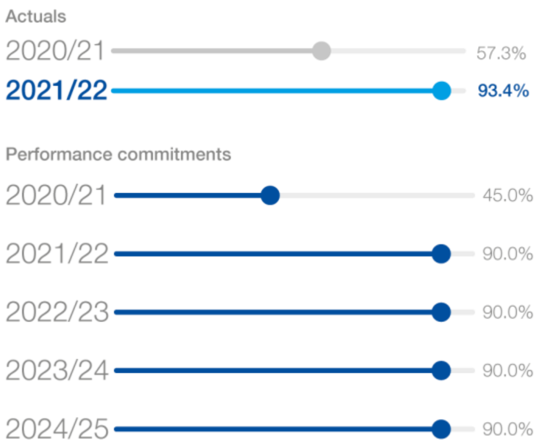
“We were delighted to be approached by Northumbrian Water to help build confidence in the benefits of Priority Services Register and signpost to our own range of services. We very much look forward to working together in the future to bring benefit to our mutual customers”.

Review of Priority Services Register

Actual contact



Attempted contact



We have achieved this PC.

This common PC verifies customers' needs where they have been on the PSR for more than two years and we have beaten both our actual and attempted contact targets this year.

We are validating our PSR register in four main ways:

- When a customer who is already on our PSR contacts us the Customer Advisor receives an alert to verify their needs.
- As part of our proactive contact with customers, when we are completing planned work, we review their PSR information.
- We are making outbound contacts to customers who were due to have their information validated who hadn't contacted us directly.
- We are working with large housing associations to update social housing properties for tenants living in accommodation reserved for anyone needing support.

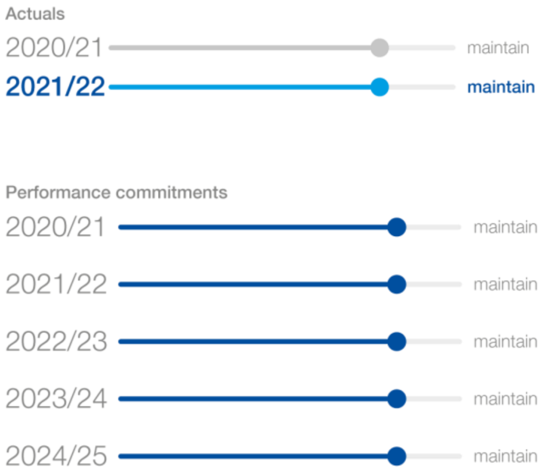
Case study – Support for all (a cross-sector PSR hub)

At our October 2021 Innovation Festival, we began exploring a solution to allow PSR data to be shared between different sectors. In February 2022 we furthered the concept by hosting more than 60 participants from 30 organisations to collaborate on the design of a fully supported PSR journey for water and energy at a regional level.

Our new solution means that customers only need to need to provide their details for it to be shared amongst the relevant utility companies. This gives customers a consistent experience with swift offers of assistance and benefits based on their individual needs.

We have been awarded funding through the Catalyst Stream of Ofwat's Water Breakthrough Challenge, which we will use to build and test a data hub to securely host and share PSR data. Our aspiration is to scale the hub both geographically and into other sectors, such as local authority and healthcare, into a national PSR platform.

British Standards Institute Award for Inclusive Services - PR19NES_BES23



We have achieved this PC.

This is a bespoke PC and is reputational only. Our target is to maintain this award consistently. This PC is designed to make sure we provide a fair, flexible service which can be used by all customers equally, regardless of their health, age, or personal circumstances.

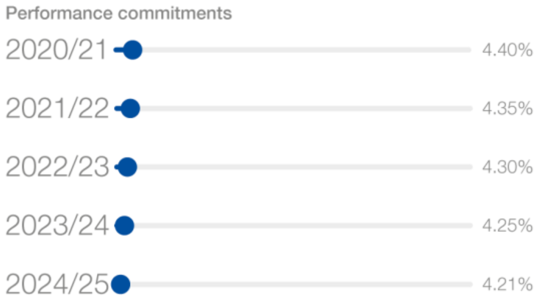
We're proud to have maintained BS 19477: Inclusive Service Verification this year. The standard assesses whether inclusive services are fully accessible to all customers and that companies have the right business processes in place.

This is the second year that we have completed the audit which reviews our approach to vulnerability and makes sure our services are inclusive for all - whatever a customer's circumstances. During the assessments BSI reviewed our documented policies and procedures, then held sessions with our teams to see how we operate the policies and procedures on a day-to-day basis. The sessions include contact with all areas of the business, including call listening, a complaints review, our communications planning, how we manage events, debt recovery and affordability.

With BSI alongside core expectations on delivery of service, they continually focus on seeing how we are continuing to develop our offering and learning from customer feedback. We've put an action plan in place to cover the non-conformity and opportunities highlighted, which will be completed this year to further enhance our website offering and how we improve the identification of triggers and risk factors that highlight our customers may be in vulnerable circumstances.

We're always reviewing the services we offer, and this expert assessment provides regular external scrutiny of our processes.

Percentage of void household properties - PR19NES_BES08



We have achieved this PC.

This is a bespoke measure, with financial incentives for both under and outperformance. Reducing the number of void properties, which are occupied but not billed, leads to fairer charges between customers and lower bills for customers already being billed. This year we've beaten our PC and earned a financial reward of £1.333M for doing so.

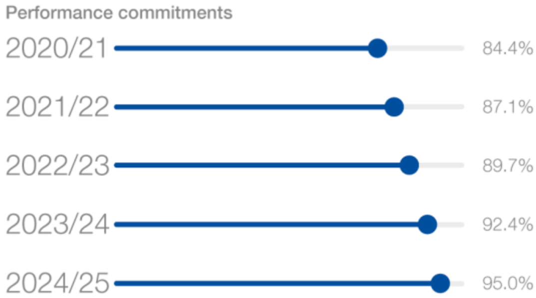
Billing all customers in a timely and accurate way has always been our focus. The introduction of this new measure to incentivise water companies to minimise the number of void properties led us to look closer at our process for identifying 'Occupiers' who have failed to register.

Last year we worked closely with TransUnion to improve the way that we proactively use credit reference data to identify properties that are occupied yet not billed. We now have our new process embedded, which alongside the automation we have developed to deal with returned post and auto-bill these newly identified occupiers, has made the whole empty property routine much more efficient.

We still need to employ the more traditional empty property processes where the credit data approach isn't successful, but it does mean that we are better able to target our property visits. This year we have been working with several local authorities and housing associations to share information on their tenants who may not yet have registered for billing, these arrangements help tenants by reducing back billing and creating debt and help us to further reduce our unbilled properties.

In future years we expect to see improvements by using data from our smart metering programme to help identify when customers have moved out without telling us or where they have started to use a supply that we have registered as empty. We can see some of this data starting to come through. The number of smart meters is still relatively low so this will have limited impact on numbers at this time.

Gap sites - PR19NES_BES07



We have not achieved this PC.

The aim of our bespoke gap site PC is to reduce the risk of sites or properties receiving water and/or wastewater services that are unknown to us and are not being billed. Reducing the number of these gap sites, which are also potentially occupied, leads to fairer charges between customers and lower bills for customers already paying. This PC is reputational, so no penalty or reward is payable.

The number of gap sites cannot be measured directly as they are unknown to us. The only way to assess gap site risk is by comparing our property data with third party information to look for differences. We set a PC to match most of our non-household premises database (contained within our corporate Customer Contact and Billing system) with the Government’s Valuation Office Agency (VOA) business premises ratings list – aiming to achieve a match of 87.1% by the end of 2021/22.

Not all the active premises in our database are eligible to be on the VOA ratings list and those that are, don’t always have a VOA reference number. Local Authorities introducing new or revised numbering structures can cause unmatched premises, as can simple transcription errors or mistakes when data was entered into our system.

The number of matched combined household and non-household premises in our operating region is unknown as we have been unable to implement our matching project due to continued issues because of Covid-19 and its impact on resource availability. We are at the early stages of reviewing the matching processes and will begin the manual matching process on 1 September. We continue with the automated matching process and our records are updated daily.

We remain confident of meeting our five-year target and hope to accelerate our matched rates as we complete our aligned unique property reference number (UPRN) matching processes over the next year.

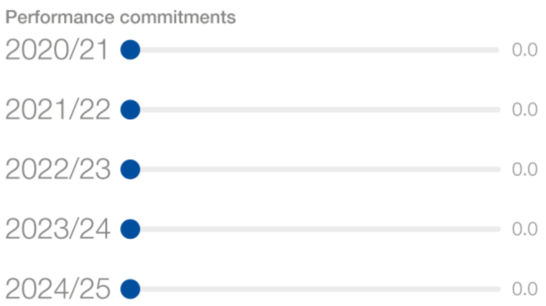
The matched premise percentage has been derived by taking new additions on the VOA ratings list (4,247) less deletions (6,333), cross referenced against the final figure submitted last year (155,756), which provides assurance on the accuracy of our match rate of 64.3%.

THEME THREE: RELIABLE AND RESILIENT SERVICES

OUTCOME 6: We are resilient and provide clean drinking water and effective sewerage services; now, and for future generations.

- Risk of severe restrictions in a drought – common
- Delivery of our smart water metering enhancement programme – bespoke
- Delivery of our water resilience enhanced programme – bespoke
- Delivery of our lead enhancement programme – bespoke
- Delivery of our wastewater resilience enhanced programme – bespoke
- Delivery of our Howdon Sewage Treatment Works enhancement – bespoke
- Delivery of our cyber resilience enhancement programme – bespoke
- Delivery of our Drainage and Wastewater Management Plan – bespoke

Risk of severe restrictions in a drought - PR19NES_COM10

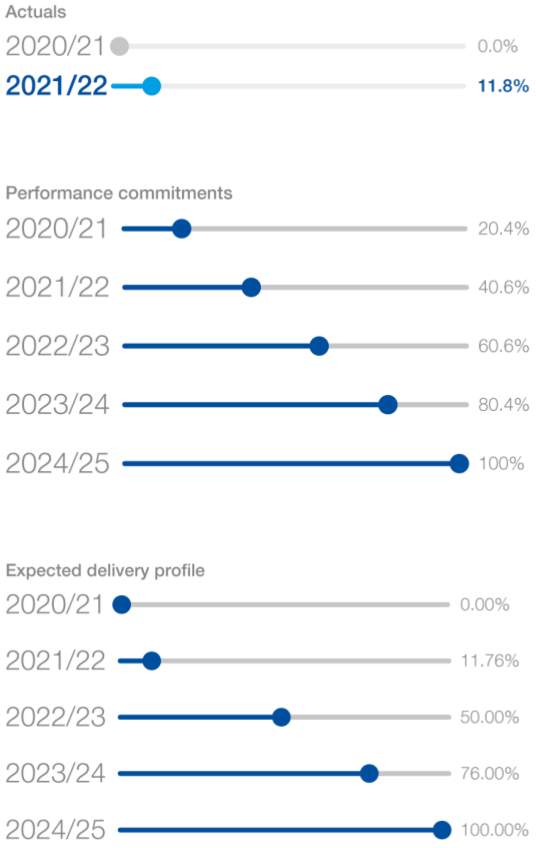


We have achieved this PC.

The overall metric is the percentage of our population at risk of experiencing severe restrictions in a 1-in-200-year drought, on average, over 25 years. The metric tracks water company implementation of Our PR19 Water Resources Management Plan (WRMP19) supply and demand schemes, to reduce the percentage of customers at risk of severe drought restrictions.

We report a result of 0% of population at risk for this metric, meeting our PC, reflecting progress to date with implementing our WRMP19 schemes. Our WRMP19 demonstrated that we have 100% security of supply in all our Water Resource Zones (WRZs), 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 WRZs, with 0% of our customers at risk from severe supply restrictions. We therefore did not need to promote any supply schemes in our WRMP19 but did include demand management schemes.

Delivery of our smart water metering enhancement programme - PR19NES_BES26



We have not achieved our target.

This is a bespoke, penalty-only PC to incentivise delivery and return funding to customers if we fail to deliver the programme in full by March 2025. The PC specifically measures the percentage delivered of our smart metering programme. This is limited to installing new smart meters and replacing existing basic meters with smart meters. Only household meters can be counted for this PC, and only once for each household in the five-year period. New developer installs are also discounted from the PC despite advanced metering infrastructure (AMI) meters being installed at these properties.

We're committed to rolling out smart water meters for our customers with the overall goal that all our meters will be fully smart by 2035. While we made significant progress with the mobilisation of our smart programme in the last year, we did not achieve our PC for 2021/22.

We had a tough start throughout 2020/21 as our meter installations were impacted by procurement delays, the suspension of metering activity such as fitting and replacing meters in response to government guidance, and a reduction in the number of customers applying for a meter. Our meter installations were further impacted in 2021/22 by supply chain delays caused by the global chip shortage, inability to recruit additional installation resource in a challenging labour market and a continued reduction in the number of customers applying for a meter.

To make up for this, in May 2021 we re-orientated our smart water meter enhancement programme to become a significant transformation programme recognising the positive impact it will deliver for our customers and for the organisation.

Continued Covid social distancing restrictions meant some customers were reluctant to allow our employees inside their homes, for some this persists even after Covid restrictions have been lifted. We believe the reduction in demand for meters is also due to concerns about increased water consumption with more people working from home, and the reduction in unmeasured bills in our Final Determination from Ofwat, because saving money on water bills is one of the main drivers for our customers to apply for a meter.

However, we remain confident that we will deliver 100% of the programme by March 2025 and our expected delivery profile is shown in the chart above.

We continue to offer our customers free water meter installations, on request. However, we started introducing AMI meters in 2021. Our first AMI meter installations took place in May 2021 in Dagenham, Essex, where commissioning an Arqiva base station enabled us to install approximately 8,000 smart meters connected to the Arqiva Flexnet communications network.

During 2021/22, a total of 44,141 meters were installed across our three operating regions (North East, Essex, and Suffolk). These were a mix of automated meter reading (AMR) (6,808) and AMI capable meters (37,456). This split was due to the need to install our remaining inventory of AMR meters that we held in our warehouses while we ramped up our AMI inventory. The AMR meters and AMI meters installed at new domestic developments do not satisfy our ODI as a result only 27,877 of the AMI installs contribute to the ODI.

All domestic meter installs are now AMI capable with the possibility to connect them to a smart network and allow them to operate as true AMI meters in the future. In 2022 we will tender for a smart communications network provider (CSP) covering all three of our supply regions which will allow us to offer smart metering to all our customers who want it and start systematic replacement of AMR meters at end of life or proactively where we can see an opportunity to reduce PCC or leakage.

We recognise the positive impact smart metering can have on delivery of a more proactive customer experience, supporting reduction in PCC and both customer and network side leakage.

Case study: Raising the bar with the IoC

As part of our drive to make sure our customers always receive great customer service and experiences, we've worked closely with the Institute of Customer Service (IoC) to gain accreditation for our Unrivalled Customer Contact (UCC) training.

Following the success of the training across our Contact Centre, we're working with our Smart Metering programme to deliver UCC to smart field teams. Sharing tools and tips using real on the job examples, we're successfully bringing unrivalled customer experience to life for our field teams.

The training is in two parts. Classroom-based training brings to life the huge impact our field teams have in making our customers feel important and valued. In the days and weeks following the training attendees complete their UCC workbook and our trainers provide ongoing coaching and development in real time to embed learning, celebrate success and identify new areas for improvement.

The field teams are clearly embracing their training and feeding back improvements to continuously make our customers experiences better. One example is the introduction of the monetary value of a quantity of water to our leaflets. While we were providing a visual picture of what a quantity of water looked like, our customers had advised our field teams that they wanted to relate this to money. This is now being introduced to our leaflets, alongside water efficiency messaging that shows how saving water can also save energy, save the customer money, and help the environment.

Feedback and engagement throughout this training has been high and we are already seeing great improvements in customer feedback.

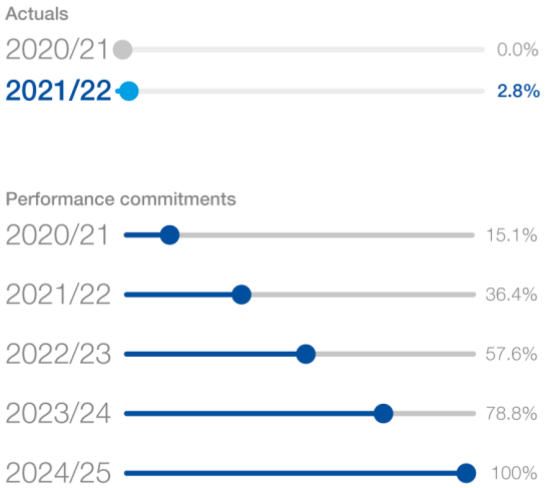
Delivery of our water resilience enhancement programme - PR19NES_BES24

This programme comprises several schemes which seek to improve the resilience of our water supply system which are due for completion by March 2025. These schemes include Springwell reservoir, and upgrades to the Tees pipeline in our northern operating area, and the Abberton to Hanningfield pipeline and Suffolk resilience enhancements in our Essex and Suffolk area.

The aftermath of the pandemic along with recent global events and the resulting supply chain and inflationary pressures continue to place significant challenges on our capital delivery programmes, and we are currently reviewing the impact this will have on delivery of these schemes by the March 2025, and the extent to which we can mitigate this.

We remain committed to delivering these schemes for customers.

Delivery of our lead enhancement programme - PR19NES_BES25



We have not achieved this PC.

This programme is supported by a bespoke, penalty-only PC to incentivise delivery and return funding to customers if we fail to deliver the programme in full by March 2025, alongside a reputational target in each year of the period against which we can track progress. We have not achieved our target this year, however, we remain confident that we will deliver 100% of the programme by March 2025.

As a priority, we want to protect those most vulnerable to the effects of lead in drinking water by focusing on lead pipe replacement in buildings frequented by children (our Vulnerable Groups scheme, which covers educational and community establishments).

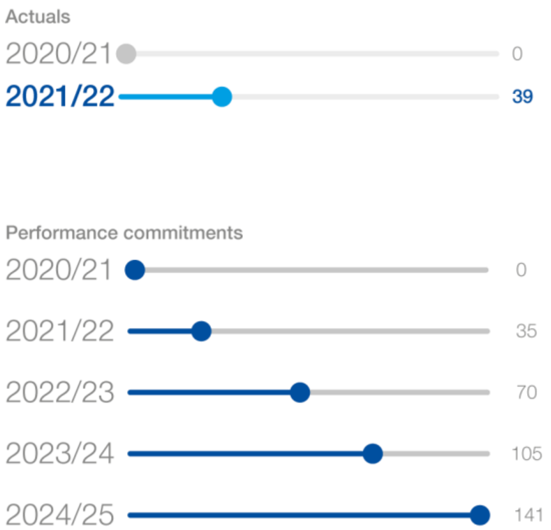
In addition to protecting our most vulnerable communities, our lead pipe replacement programme prioritises areas at the highest risk to lead exposure (our Hot Spots scheme). These schemes are spread across our three geographic supply areas so all our customers will benefit.

To mitigate the risk of lead in drinking water at the tap, the programme goes beyond replacing our lead communication pipe by replacing the customer's lead supply pipe to inside their homes. The success of replacement therefore requires individual property owner's consent.

Our lead replacement programme was impacted throughout 2020/21 by Covid-19. There were two main aspects of this. Firstly, the impact that the government restrictions had on our supply chain and their people being furloughed as a result, and secondly, our awareness that customers would be reluctant to engage in a programme that involved work inside their homes.

In year 1, we focused on developing the delivery strategy, including setting up the commercial framework, and on implementing the model for delivering and reporting on our lead enhancement commitments. Although, some lead replacement was able to start in 2021, concerns for the pandemic were still understandably high and it wasn't until January 2022 that we were able to move forward with more assurance within the circumstances. We are gaining a greater acceptance from customers to work on their property, and as the pace of replacement is accelerating, we remain confident that we will meet our lead enhancement targets by 31 March 2025.

Delivery of our wastewater resilience enhancement programme - PR19NES_BES27



We have achieved this PC.

This bespoke, penalty-only PC tracks the delivery of our wastewater resilience enhancement programme. This programme is focused on delivering investment at 141 sewage treatment works (STW) and sewage pumping stations (SPS) to increase the resilience of our wastewater network and mitigate disruption to customers.

We achieved 39 outputs in 2021/22 (ahead of the target), which included a variety of measures to mitigate flood risk or improve recovery in the event of power failure.

134 site visits have been completed. They involved a survey of the assets at each site, together with a review of flood mapping data and historical operational experience. The outcome of these surveys is to develop cost beneficial

investments solutions for each site. Reports which prescribe draft scopes and outline designs are already complete for 106 sites.

Our focus for 2022/23 will be to complete the remaining survey reports and to have delivered outcomes for at least 70 sites as we strive to deliver increased resilience of our network.

A pipeline of work and a programme schedule is being developed to assist in the planning and delivery of outputs to 2025 and we have appointed an independent technical auditor to evidence the deliverables achieved.

Delivery of our Howdon sewage treatment works (STW) enhancement - PR19NES_BES29

Actuals

2020/21 on track

2021/22 on track

We have achieved this PC.

Howdon is one of our largest STWs. This scheme seeks to improve the sites resilience by building in an element of redundancy to address single points of failure currently present at the site.

To support this aim, four key assets have been identified as requiring an upgrade: the primary effluent pumping station (PEPS), the Southbank pumping station (SBPS) and both associated rising mains.

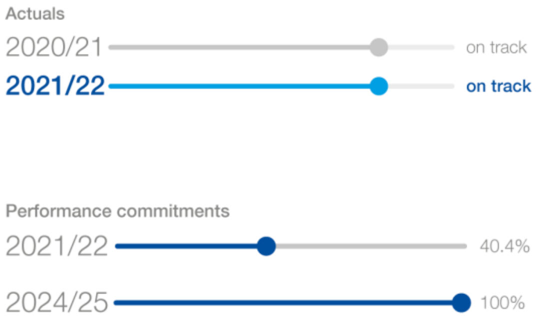
This programme is supported by a bespoke, penalty-only PC to incentivise delivery and return funding to customers if we fail to deliver the scheme by March 2025. We remain on target to deliver the resilience elements of this scheme within these timescales.

With our lead technical consultant, Wood Group, we have developed a conceptual design for the upgrades including a review of all available technologies. We plan to locate the new PEPS rising main in a more suitable location and in March 2022, we purchased land adjacent to the existing Howdon site to facilitate this major upgrade. Due to the additional benefit of reducing spillages from Howdon STW, the resilience scope has been increased to include additional management of storm flows. This should mean fewer occasions where there is a need to discharge effluent that has not gone through the treatment works in times of rainfall or snowmelt, reducing the number of discharges into the environment. We anticipate this will reduce spillages by 50%. We know our customers want us to greatly reduce spillages and we are setting new aspirational targets for our approach to rives and coasts in our long-term vision for 2050.

Work is underway to develop the design further so that a robust set of tender documents can be produced. Construction work is scheduled to commence in spring 2023, in line with our original plan. All new assets will be commissioned and brought into service in early 2025.

The project has a further objective to increase the permitted dry weather flow, due to the anticipated increase in the population in the catchment (estimated to be 150,000 population equivalent) in the next 25-30 years. The delivery of this additional scope is aligned to the programme for the expected population growth, which is continuously under review so that business risk is fully managed. Delivery of this growth scope will be phased to complete by early 2027.

Delivery of our cyber resilience enhancement programme - PR19NES_BES28



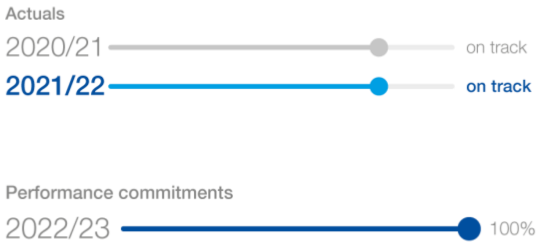
We have achieved this PC.

This programme aims to deliver multiple benefits by enhancing our cyber security function and supporting compliance with the Network and Information Systems (NIS) Directive. Our PC was to deliver the first 40.4% of the programme during 2021/22 and this has been achieved.

We continue to monitor the increasing cyber threat landscape to make sure our investment is focused on the areas that have the greatest impact on protecting our business. Keeping up with advancements in technological and human cyber capability, particularly from well-funded foreign state threat actors is both challenging and expensive so we make sure our investments are allocated to the most appropriate areas.

Several cyber security procurements and enhancement have been made during 2021/22 and others are currently in flight. We continue to develop our security posture in line with our continuous improvement strategy to make sure technical and human advances by malicious threat actors are mitigated appropriately and keep our people and our customers safe.

Delivery of our Drainage and Wastewater Management Plan (DWMP) - PR19NES_BES32



We have achieved this PC.

For the first time in 2023, we are publishing a Drainage & Wastewater Management Plan (DWMP) to identify how we will extend, improve, and maintain a robust and resilient drainage and wastewater system considering the pressures of climate change, population growth and growing customer expectations.

Publication of our DWMP is supported by a bespoke, reputational-only PC, performance against which will be assessed in 2023. We are currently on track to deliver this.

During 2021/22, we identified significant, resource heavy tasks required linked to latest guidance on climate change, storm overflows and customer consultation. We completed Problem Characterisation and Option Development & Appraisal on the 250 drainage areas that progressed through Baseline Risk and Vulnerability Assessments and developed our Programme Appraisal methodology that considers Defra Consultation on the Government's Storm Overflow Discharge Reduction Plan (published on 31 March 2022).

We have continued to attend national DWMP groups to make sure we are up to date with regulator and industry expectations as well as quarterly meetings with the Strategic Planning Group (SPG) to present updates, methodologies and seek guidance on our approach. The SPG is made up of relevant external stakeholders who provide challenge. Our continued engagement with customers to inform them about the issues relevant to our DWMP have included a quarterly -newsletter that is posted on our website, and we have also sought feedback via our DWMP customer portal. We've also worked hard to plan in assurance with our Internal Audit team to make sure the DWMP aligns with our Water Resource Management Plan (WRMP).

As well as drafting our customer focused, technical, non-technical and **overall DWMP reports**, we also published our Strategic Environmental Assessment (SEA) approach for consultation and received three responses; our draft SEA is now being developed and reviewed.

The DWMP sets out how we intend to extend, improve, and maintain a robust and resilient drainage and wastewater system and takes a long-term view, setting out a planning period that is appropriate to the risks we face with a minimum period of 25 years. As a result of this, DWMPs will inform our Business Plan submissions for the next price review in 2024 and beyond. For subsequent planning periods, DWMPs will become embedded within our planning processes as business as usual.

The framework provides the basis for more collaborative and integrated planning with and alongside organisations that have responsibilities relating to drainage, flooding and protection of the environment. DWMP analysis will give us a more strategic view of expenditure requirements in service areas (such as sewer flooding, pollution incidents) which are forecasted to deteriorate due to the impact of growth, climate change and urban creep. From the DWMP we will create outputs that will inform PR24 customer research on Willingness to Pay and preferences, with a view to providing greater transparency, robustness, and line of sight to investment decisions that lead to cost to customers.

The programme we're working towards for publishing our DWMP is:

TABLE 4

PROGRAMME	TIMELINE
Programme appraisal	April 2022
Draft DWMP published for consultation (on our co-created customer portal)	June 2022
Draft to final tasks	July to December 2022
Final assurance and sign off	January to March 2023
Final draft DWMP, incorporating consultation responses	March 2023

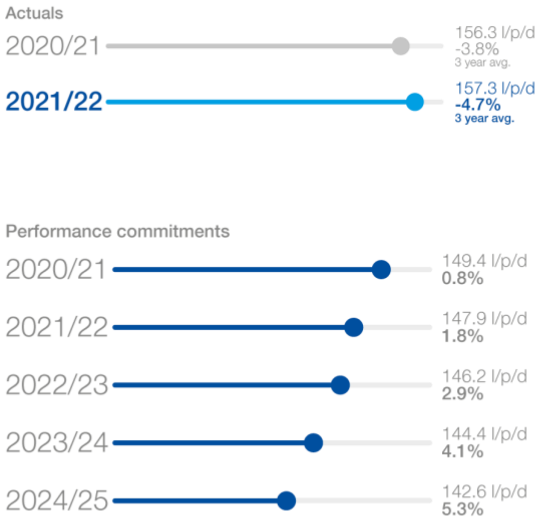
OUTCOME 7: We always provide a reliable supply of water

AMBITIOUS GOAL: Have the lowest levels of leakage in the country in our water-stressed Essex & Suffolk Water (ESW) operating area

AMBITIOUS GOAL: Have a per capita consumption (PCC) for water use of 118 litres per person per day by 2040

- Per Capita Consumption (PCC) – common
- Unplanned outages – common
- Interruptions to supply between one and three hours – bespoke
- Interruptions to supply greater than three hours – common
- Interruptions to supply greater than 12 hours – bespoke
- Leakage (ESW) – common
- Leakage (NW) – common
- Visible leak repair time – bespoke
- Mains repairs (was bursts) – common
- Abstraction Incentive Mechanism (AIM) – bespoke

Per Capita Consumption (PCC) - PR19NES_COM07



We have not achieved this PC.

This is a **common PC**. Our PC requires us to deliver a reduction of 1.8% for 2021/22 against a baseline taken in 2019/20, on a three-year rolling average basis.

The Covid-19 pandemic has had a pronounced effect on PCC (which reflects household water consumption only, as opposed to business use), through increased water use for hygiene requirements and a substantive shift to home working. Social distancing restrictions have also limited our ability to implement water efficiency measures in customer homes.

As a result, PCC has increased by 4.7% against the 2019/20 baseline.

The aim for our programme of activities was to deliver a 1% reduction in PCC, as well as addressing the shortfall from 2020/21. We have not achieved our target.

We continued to monitor the impact of Covid-19 on household consumption and have sought to disaggregate the impact of Covid from other variables that influence PCC. We have worked with the Met Office to model demand within our regions in two phases, showing that:

- PCC for our operating areas overall increased by 5% between April and August 2020. 63% of this was due to an increase in base demand from normal, and 37% was due to an increase in weather dependent demand from normal.
- Between April and September 2021, demand in all three of our operating regions stayed higher than 2019 (pre-Covid). The weather dependent demand seen from people being at home using water in the garden has significantly reduced in this period compared to 2020/21. From this it can be concluded that Covid-19 alone impacted total demand and PCC over and above the effects of the weather.

The first half of 2021/22 saw the continuation of lockdowns and meant our people continued to review, adapt, and develop innovative approaches and a new water efficiency strategy for the remainder of the 2020-25 period. As we moved into the second half of the year and out of Covid-related restrictions, we were able to initiate various new approaches alongside returning to our tried and tested interventions. We remain committed to a long-term target on reducing the water taken from the environment by delivering effective campaigns and interventions to reduce PCC to 118 litres per person per day by 2040 and 110 by 2050.

Highlights of our new water efficiency strategy include:

- Our new home water and energy saving retrofit programme, effectively targeting the highest users of water.
- Video calls to survey customer's homes and offer a continuation of our home water and energy saving retrofit programme.
- An online water and energy calculator allowing customers to produce personalised reports with tailored water and energy saving solutions.
- A highly engaging online school education programme providing teachers with interactive, curriculum linked resources for KS2 children.
- Gold Sponsorship of the 2022 Waterwise Conference.
- Active and leading involvement in two national water efficiency behaviour change campaigns - Water's Worth Saving and Pledge21.

- Integrating water efficiency as a core customer journey in our smart metering programme.

In addition, we have completed several phases of customer research to understand changes in work location, staycations, water use now and in the future. Customers told us that working from home has increased and they were using more or much more water. Frequent surveys have allowed us to understand the trends and changes over time.

We will continue to carry out research and data analysis throughout 2020-25 to make sure we have a clear picture of what's changing and how the pandemic continues to impact PCC.

Ofwat has acknowledged the impact of the pandemic on PCC and has agreed to defer the application of any financial incentives to 2024/25, at which point it expects to conduct a comprehensive review to ascertain appropriate incentives.

The PCC reporting methodology is broken down into reporting components and then into elements. We can confirm that that the reporting methodology used to provide these figures is consistent with a 'green' (I.e. compliant) assessment against each component.

Case study – Tackling leaky loos

Leaking toilets are the single biggest waste of water in the home, equivalent to an extra two people's water use and occur in 5-8% of homes. For our customers this would mean between 110,000 and 176,000 homes with a leaking toilet right now - wasting around 23 million litres of water every day - which far outweighs the water saving benefit of the dual flush toilet.

Because of this, tackling leaky loos forms a key component of our water efficiency strategy. It's an area that we can demonstrate success over the past year with the greatest number of repairs in a single year and being shortlisted in the Water Industry Awards 2022.

The programme is also great news for customers. In addition to the provision of an essential plumbing repair service free of charge, we are also supporting customers to reduce their bills. The repair of a single leaking toilet in a metered home could save the occupants hundreds of pounds each year.

For years, we have offered a free repair service for leaky loos to all our customers. We have concentrated our work on helping customers identify leaky loos and promoting our free service in tandem with actual repairs.

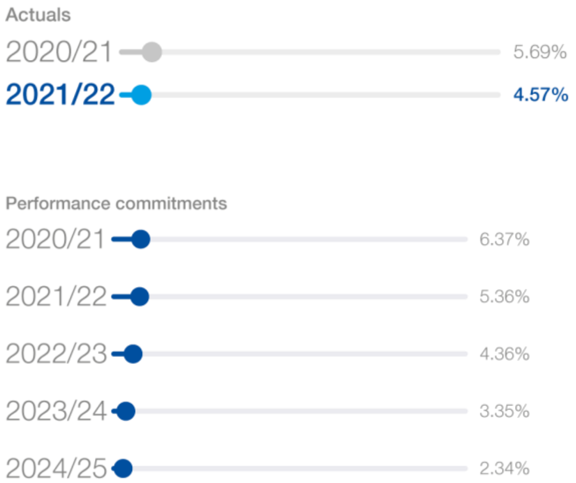
With the culprit being a leaky drop valve system (button flush) that can often trickle a minimal rate for years before becoming obvious, unsurprisingly a leaky loo may not always be particularly obvious to customers. In turn, we've developed a range of marketing and communications activities – ranging from free leak detection packs to Facebook advertising, to targeting new housing estates, to door-to-door customer engagement – which in turn has seen the number of leaking toilets repaired increase from 1,167 in 2020/21 to 2,348 in 2021/22.

Collectively, this has saved a huge 504,820 litres every day.

Tim Wagstaff, our Water Efficiency Manager, said: "We are doing what other companies are not, which is tackle one of the biggest areas of water wastage in the home; leaking toilets. We are working collaboratively as a sector with the bathroom industry to put a permanent solution in place. For now, our leaky loo programme is a cost-effective way of significantly reducing PCC now while supporting our customers to avoid a large bill for a plumber at a time when household costs are rising."

As we move into 2022/23, we are progressing lots of exciting and innovative approaches to help us help more customers. We have developed a TV advert that will soon go 'live', and we will continue to identify new approaches to targeting homes that have a higher propensity to have a leaky loo.

Unplanned outage - PR19NES_COM13



We have achieved this PC.

This is **common, penalty-only measure,** which is used to assess the health of our assets for our water abstraction and water treatment activities. It is designed to make sure water companies appropriately maintain and improve the asset health of their non-infrastructure or above-ground water assets for the benefit of current and future generations and demonstrate their commitment to asset stewardship responsibilities.

Ofwat set us the very ambitious target of having only 2.34% of unplanned outages by the end of 2025. We have once again improved performance reporting 4.57% across the company beating our target of 5.36%.

The new Water Treatment Works (WTW) in Berwick has had a positive impact on unplanned outage and investment made in Horsley and Warkworth have also reduced overall unplanned outage. We continue to inform Ofwat of any unplanned or planned situations when we're unable to meet PWPC because of any asset failures or the inability to treat water to required standards. In addition, we continue to improve our processes and simplify the data entry process for operations. Internal engagement through regular meetings and outage reviews means our people have a clear awareness of the need to accurately record outages. Our improvement plans remain centred on proactive maintenance regimes, continued operator asset care and delivery of future investment to our water treatment assets.

The unplanned outage reporting methodology is broken down into reporting components and then into elements. We can confirm that that the reporting methodology used to provide these figures is consistent with a 'green' (I.e. compliant) assessment against each component.

Interruptions to supply and the impact of Storm Arwen

Storm Arwen hit the North East of England over 26 and 27 November 2021 and was one of the most powerful and damaging winter storms in a decade. There was widespread and sustained loss of power across the region and a major incident was declared. The loss of power had a significant consequential impact on provision of water to our customers, primarily because of loss of power to our assets and associated loss of communications.

We have three PCs to assess the extent to which customers water supplies were interrupted during the year.

- Customer interruptions between 1 and 3 hours duration, measured in average mm:ss across the year.
- Customer interruptions of greater than 3 hours duration, measured in average mm:ss across the year.
- A count of properties interrupted for greater than 12 hours.

We have conducted a thorough and independent review into the effectiveness of our response to the storm, to make sure we can learn any lessons and improve our response to any future events.

The overall findings from this review were that our response was robust, quickly mobilised and effectively organised. It also concluded that we went beyond our duty in organising alternative water supplies and made sure customers on our Priority Services Register received the support they required.

In the context of what was a very challenging and exceptional event to respond to, the review also identified a small number of areas where we could have been more robust - especially in relation to provision of back-up power - and had this been the case then we could have lessened the impact on customers.

The terms attached to these three PCs allow us to make a representation to Ofwat for an exemption, where a civil emergency has occurred, as is the case for Storm Arwen. On this basis we believe we would be entitled to seek an exemption for the entire impact of the storm on our performance. However, given the outcome of our review, we are proposing to accept a small proportion of the performance impact in relation to those areas where our response could have been more robust .[2]

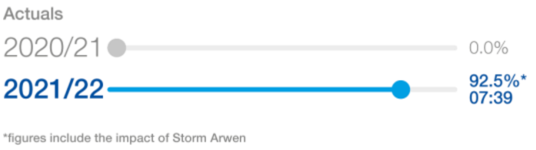
Below we provide two sets of figures:

1. What our performance would be if the impact of Storm Arwen is included in full (Ofwat has asked us to provide these figures).
2. What our performance would be, if in line with our representation, we accept a small portion of the impact. It is these figures which we believe to be the fairest reflection of our performance for the year.

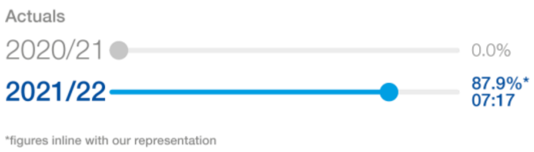
[2] the portion of the ODI we are proposing to accept is based on the **difference** between the total ODI impact calculated based on all Arwen related interruptions being included in their entirety, and what the total Arwen related impact would have been if our response had been more robust. i.e., we are proposing to accept the ODI impact relating to the extent to which shortfalls in our response extended customer outages.

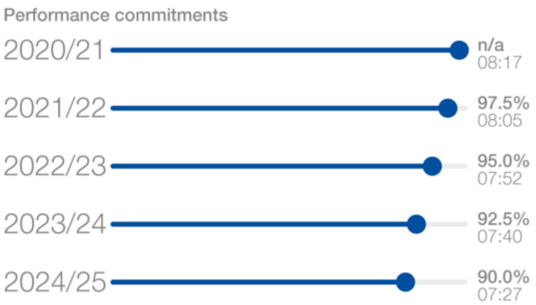
Interruptions to supply between one and three hours - PR19NES_BES14

The figure below includes the full impact of Storm Arwen. This exceptional weather event added 0m:24s to this measure.



The figure below includes a small proportion of the impact of Storm Arwen, consistent with the representation we have made to Ofwat. We believe to be the fairest reflection of our performance for the year.





We performed strongly across the year and have achieved this PC under all three scenarios described above.

This is one of our two supply interruption bespoke measures for 2021-25. We used three years of data from 2018/19 through to 2020/21 to establish a 'baseline' level of performance from which we can measure our performance as a percentage change.

For this measure, all interruptions between one hour and two hours 59 minutes are added up to give the total time that customer supplies were lost across our supply area. We then divide this total time by the total number of connected properties we serve. This gives an average time in minutes and seconds that we have interrupted each customer for between one and three hours. The Baseline average of the last three years is 08:17mm:ss. If Ofwat accepts our representation, we expect to outturn at 87.9% compared to baseline (outturn at 07:17mm:ss). This performance will result in a reward of £0.604M.

An interruption to the water supply can either occur on a planned basis when we carry out network maintenance, or unexpectedly when a burst, third party damage or other failures occur in the network. We recognise that interruptions to the water supply can cause our customers real inconvenience - especially when they're unexpected and we cannot warn customers in advance.

Our performance in this area is dependent on which water mains fail and where they are located, and we have found that one event can have a large impact on our figures. For example, if we have been able to restore supply quicker (under three hours) due to better network connectivity or being closer to a depot to swiftly collect the maintaining supplies trailer and deploy an overland rider, then this measure will be seen to be improving. Whereas the >3hour measure may suffer adversely consequently.

We shall be looking at further initiatives to drive improvements to performance, as we will continue to share learnings and carry out training to increase everyone’s awareness of keeping an interruption as short as possible without any implications to health and safety and / or the environment.

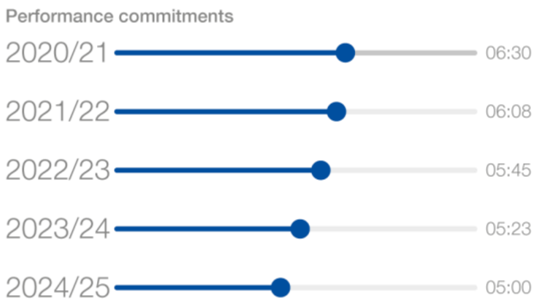
Water supply interruptions greater than three hours - PR19NES_COM04

The figure below includes the full impact of Storm Arwen. This exceptional weather event added an additional 6m:57s.

*figures include the impact of Storm Arwen

The figure below includes a small proportion of the impact of Storm Arwen, consistent with the representation we have made to Ofwat. We believe to be the fairest reflection of our performance for the year.

*figures inline with our representation



We performed strongly across the year. If Ofwat accepts our representation, we will achieve our PC.

This is a **common** measure designed to incentivise companies to minimise the number and duration of supply interruptions. For this measure, all interruptions of three hours or longer are added up to give the total time that customer supplies were lost across our supply area. We then divide this total time by the total number of connected properties we serve. This gives an average time in minutes and seconds that we have interrupted each customer for three hours or longer. Reducing the number and duration of interruption events improves the reliability of supply and reduces negative social and public health impacts on customers. If Ofwat accepts our representation, we expect to outturn at 05:51 mm:ss against a PC of 06:08mm:ss. Excluding Storm Arwen we would have achieved our target.

An interruption to the water supply can either occur on a planned basis when we carry out network maintenance, or unexpectedly when a burst, third party damage or other failures occur in the network. We recognise that interruptions to the water supply can cause our customers real inconvenience - especially when they're unexpected and we cannot warn customers in advance.

Our performance in this area is dependent on which water mains fail and where they are located, and we have found that one event can have a large impact on our figures. One burst in Teesside in April 2021 added a massive 41 seconds to the results this year. This strategic main burst in Longbank, Middlesbrough, affected circa 7,000 properties with a supply interruption (many more with low pressure) and our people worked hard to make sure water was restored as quickly possible so no property exceeded 12 hours. Many properties were restored in under three hours through means of rezoning water from another source, however, many more properties were then affected for approximately three to six hours as it took a while longer to further rezone water and to recharge the remaining areas.

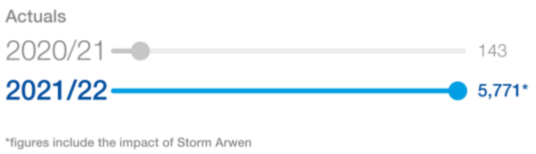
We continue to learn from the events we have had by holding weekly reviews to share what went well and where we could have done things differently, sometimes changing processes to prevent similar occurrences. We endeavour to improve our response times to all reports of nil supply, understand when to escalate an event, and acknowledge our forward thinking, such as when restoring supplies through alternative methods (before the repair is completed). Our focused approach means that all teams involved know to keep supply interruptions as short as possible.

We continue to carry out Post Interruption Reviews for events over three hours that affected more than 100 properties. The aim of these meetings is to understand and record what we could do better and share any learning to reduce the likelihood of a similar event occurring again and allow others to gain knowledge from other’s experiences.

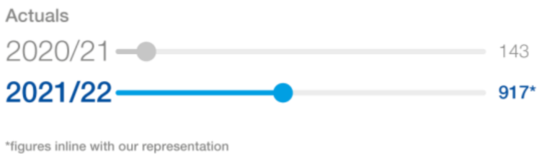
We have also begun developing a MOWBI, which is a mobile pumped water storage unit that enables some properties restored temporarily. These are particularly useful in those events where a property requires a more complicated repair or there is a health and safety reason. We anticipate this will mean some customers may experience a shorter interruption in the future, even while the permanent solution is still ongoing.

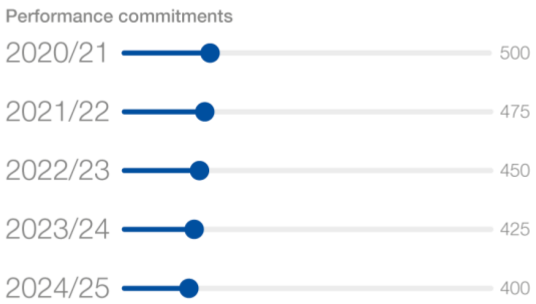
Interruptions to supply greater than 12 hours - PR19NES_BES09

The figure below includes the full impact of Storm Arwen. This exceptional weather event added an additional 5536 properties.



The figure below includes a small proportion of the impact of Storm Arwen, consistent with the representation we have made to Ofwat. We believe to be the fairest reflection of our performance for the year.



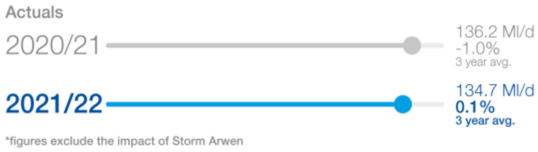


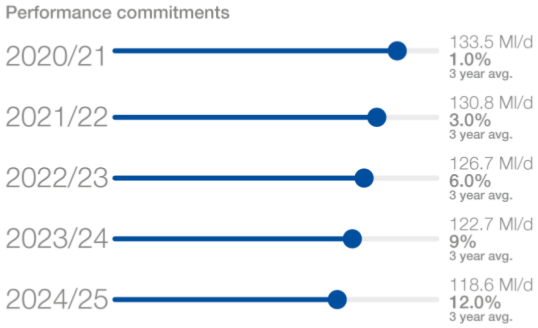
This is our second bespoke supply interruptions measure for 2020-25 where we report the number of properties which are affected by a Water Supply Interruption for 12 hours or longer. This is a very stretching target to meet over the next few years as it could only take one large event that could result in losing the ability to achieve our performance commitment for this measure. If Ofwat accepts our representation we will outturn behind our PC at 917 properties which will result in a penalty of £1.4M.

We continue to drive good performance through our focused approach of restoring customer supplies where interruptions have been seen to be lengthy or complicated. Much emphasis has been placed on providing alternative supplies such as overland riders or redirecting water from elsewhere and in some cases escalation to event management has also played its part in this year’s success. This year we have developed a MOWBI which is a mobile storage until which can be transported to single properties experiencing a loss of supply which temporarily restores supply to the property at a sufficient pressure until the permanent resolution is in place.

We continue to carry out Post Interruption Reviews for events over 12 hours with the aim to understand what we could do better and share any learning’s to reduce the likelihood of a similar event occurring again.

Leakage Northumbrian Water (NW) - PR19NES_COM05





We have not achieved this PC.

This is a **common measure** with several industry-wide reporting methodology changes for 2020-25 which aim to help companies calculate leakage more consistently.

Leakage from the water network is measured in Megalitres (millions of litres) lost per day. Leakage levels fluctuate throughout the year as the weather changes, and we report the average daily level at the end of the year. Our PC is the percentage reduction of three-year average leakage against our 2019/20 baseline. We are still seeing the effects of 2020/21 on the three-year average figures as it was a tough period for a number of reasons - customer reported leaks were much lower during lockdown, and we were also hit by extreme weather with a significant freeze thaw weather event which caused lots of mains bursts. Despite this we still performed better than average in 2020/21 compared to other water companies but there is more to do to hit our targets.

For 2020/21 we were required to deliver a reduction of 3%. Northumbrian Water (NW) has seen leakage average 130.5 megalitres per day (Ml/d) in 2021/22. This gives three-year rolling average performance of 134.7Ml/d (an reduction of 0.1% against the baseline), whereas the level required to achieve our target was 130.8Ml/d. This incurs a penalty of £683,000.

After a difficult winter in 2020/21, we started in a poor position and have worked throughout the year to reduce the number of outstanding leaks and to minimise the average run times with increased resources, which is reflected in our visible leak repairs performance, something customers tell us is very important to them. Leakage is more difficult to calculate during the summer months, due to increased (and sometimes unpredictable) demand levels and the number of leaks that break out because of the ground drying out. We saw significant supply/demand issues in the Tyneside zone throughout the summer, and resources were diverted to this area to maintain supplies to our customers. To better understand this problem, we have invested in fast logging monitors so we can get more accurate estimates of our customer consumption, and we have carried out some flow balances on the strategic network to see exactly where the water demand has increased.

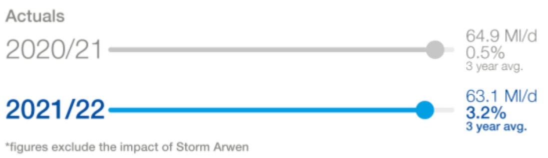
There have been several innovative interventions employed alongside the standard Active Leakage Control processes throughout the year as well. 6,000km of mains have been surveyed via satellite to highlight potential points of interest;

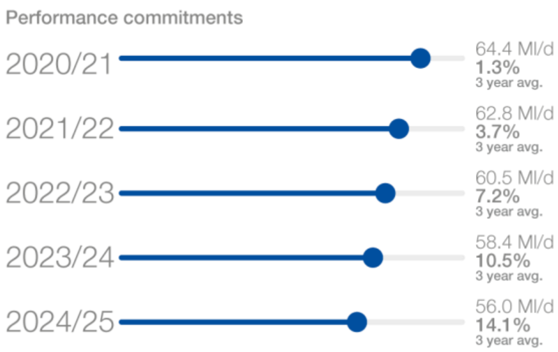
Digital twins of the network have been developed to tackle problematic District Metered Areas by identifying specific areas of focus for our leakage technicians; acoustic logging trials have been carried out with multiple suppliers and further studies have been done to review our plumbing losses value.

We have made a good reduction this year in annual performance but recognise it wasn't enough to achieve the three year average target. We are providing additional investment in the NW region to help us get back on track with meeting our targets by 2025. This includes additional Leakage Technicians, scaling up the digital twin project, continuing to improve data quality for all water balance components and maximising the benefit of existing pressure management schemes.

The leakage reporting methodology is broken down into reporting components and then into elements. We can confirm that that the leakage reporting methodology used to provide these figures is consistent with a 'green' (I.e. compliant) assessment for all but one of the components, and we can confirm that the one component assessed as Amber has no material impact on our reported performance.

Leakage Essex & Suffolk Water (ESW) - PR19NES_COM06





We have not achieved this PC.

This is a **common measure** with several industry-wide reporting methodology changes for 2020-25 which aim to help companies calculate leakage more consistently. Leakage from the water network is measured in Megalitres (millions of litres) lost per day. Leakage levels fluctuate throughout the year as the weather changes, and we report the average daily level at the end of the year. Our PC is the percentage reduction of three-year average leakage against our 2019/20 baseline. We are still seeing the effects of 2020/21 on the three-year average figures as it was a tough period for a number of reasons - customer reported leaks were much lower during lockdown, and we were also hit by extreme weather with a significant freeze thaw weather event which caused lots of mains bursts. Despite this we still performed better strongly in 2020/21 compared to other water companies with Essex & Suffolk Water (ESW) having some of the lowest levels of leakage in the country.

For 2020/21 we were required to deliver a reduction of 3.7%. ESW has seen leakage average 59.3 megalitres per day (Ml/d) in 2021/22. This gives three-year rolling average performance is 63.1Ml/d (a reduction of 3.2%) whereas the level required to achieve our target was 62.8Ml/d. This incurs a penalty of £54,000.

After a difficult winter in 2020/21, we started in a poor position and have worked throughout the year to reduce the number of outstanding leaks and to minimise the average run times with increased resources, which is reflected in our visible leak repairs performance, something customers tell us is very important to them. Leakage is more difficult to calculate during the summer months, due to increased (and sometimes unpredictable) demand levels and the number of leaks that break out because of the ground drying out. To better understand this problem, we have invested in fast logging monitors so we can get more accurate estimates of our customer consumption.

There have been several innovative interventions employed alongside the standard Active Leakage Control processes throughout the year as well. 2,000km of mains in Suffolk have been surveyed via satellite to highlight potential points of interest; digital twins of the network have been developed to tackle problematic District Metered Areas by identifying specific areas of focus for our leakage technicians; acoustic logging trials have been carried out with multiple suppliers and further studies have been done to review our plumbing losses value.

We have made a good reduction this year in the annual performance and despite missing our PC, we remain one of the industry leading companies in terms of leakage per property. Our focus is now on delivering the interventions that will get us back on track for next year. These include scaling up the digital twin project, continuing to improve data quality for all water balance components and maximising the efficiency of our existing leakage technicians.

The leakage reporting methodology is broken down into reporting components and then into elements. We can confirm that that the leakage reporting methodology used to provide these figures is consistent with a 'green' (I.e. compliant) assessment against each component.

Case study - Jellyfish; innovative trial for smart metering

We are working with internet experts B4T and Welsh Water in trialling an innovation in smart water metering which could help customers avoid large bills.

B4T's Jellyfish device clips on to existing water meters, which are typically in underground chambers and do not easily connect to 4G, 5G or Wi-Fi. Jellyfish gets around this problem by connecting wirelessly over 0G, a low-power technology from Sigfox.

Data is analysed by B4T's software to identify and prioritise leakage which helps to prevent damage to people's homes – and wallets. Preliminary results showed the device was 96% reliable, even from the most challenging of underground meter boxes.

We have helped to fund the project – which is taking place in Cardiff and Tywyn, north Wales – and will analyse additional benefits for our own smart water metering programme. The Jellyfish device, a unique alternative to installing smart water meters, is being utilised in Welsh Water's 'Cartref' programme, which aims to reduce instances of leaks in customers' pipes.

Gary Adams, Head of our Smart Programme, said: "This timely collaboration with Welsh Water and B4T presents an opportunity to further our understanding of new and innovative solutions in the smart metering space and proactive identification of leakage.

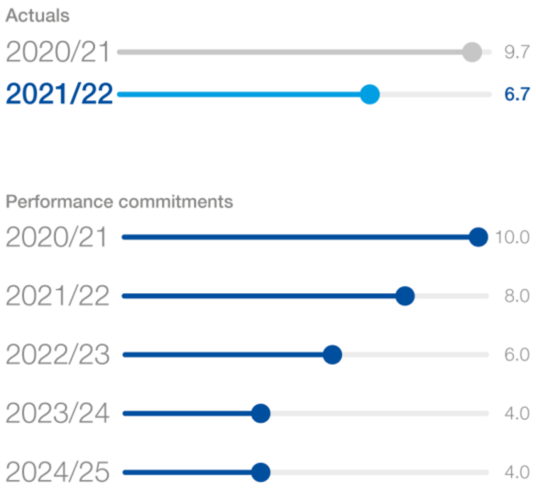
"Working closely together we can learn quickly and reduce the need to replicate costly large-scale trials so we can deliver value to our customers."

Alex Barter, managing director of B4T, added: "B4T are on a mission to redefine smart water metering.

"Jellyfish was designed from a blank sheet of paper to meet the unique demands of the UK water sector and our environmentally-charged business principles."

Hampshire-based B4T are the leading internet-of-things experts for the water industry.

Visible leak repair time (days) - PR19NES_BES04



We have achieved this PC.

This is a bespoke PC to incentivise us to reduce the time it takes to repair customer-reported visible leaks. This will reduce the amount of water wasted through leaks, something our customers tell us is very important to them and demonstrates that we are responding.

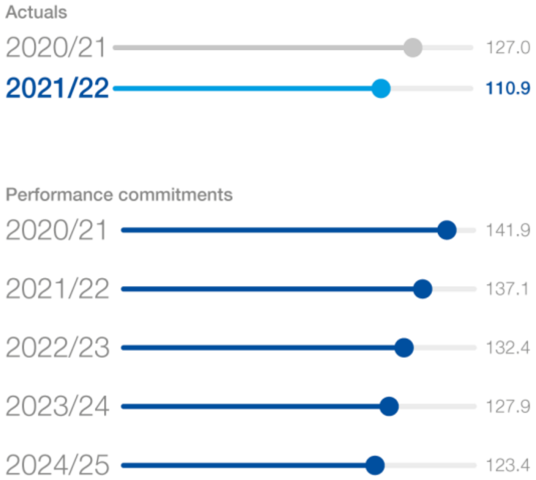
We're delighted with our final performance of 6.7 days, against a target of eight days and an improvement on last year. This translates into an ODI reward of £0.339M.

We've been promoting our leak portal to encourage customers to report leaks online making it quicker and easier for them to report. We also made improvements in how contacts were categorised in corporate applications midway through the year, with monthly performance consistently bettering the target. Ongoing communication in how to prioritise customer-reported visible leaks has been paramount, as well as their link to the Leakage ODI.

We introduced a new work pattern for our repair crews which includes Saturdays, with most of the work completed on a Saturday being visible leaks.

We are currently working with a data science consultant to improve prioritisation, report visualisation and publicity of how the target reduces further through 2020-25, and how we can continue to attain target while identifying more efficient means of repairs.

Mains repairs (was bursts) - PR19NES_COM12



We have achieved this PC.

This is a **common PC** and is measured per 1,000km of the entire water main network conveying treated water around the distribution point (excluding communication and supply pipes). Proactive (found because of active leakage control/detection by the company) and reactive (customer reported) repairs are reported separately.

We measure the number of mains bursts by counting the repairs we make to water mains each year. This year we repaired 110.9 mains bursts per 1,000km, which is well below our PC of 137.1. We will once again receive a reward – this year it is £1.411M.

Since 2019/20 our burst performance from April through to December has been very consistent in terms of bursts accumulated over this period. It was the winter weather conditions experienced during January, February, and March, which has had the biggest influence on our final year end performance. In contract to the 2020/21 reporting year, this winter was particularly benign across both the North East and Essex and Suffolk.

In 2020/21 we replaced approximately 16km of distribution main in the north and 7km of distribution main in ESW. We have updated our predictive burst modelling capabilities, with refreshed models taking into consideration many new factors such as the proximity of a pipe to a bus route or water courses. Our continued programme of employee training on calm network operations, has proved to be effective in reducing the number of bursts we create whilst operating the network.

Abstraction Incentive Mechanism (AIM) - PR19NES_BES18

We have achieved this PC.

Abstraction Incentive Mechanism (AIM) AIM is a common, financially incentivised measure. Our PC in this area (the number of days beyond the collar level) is zero and once again, it was not triggered this year.

We report the number of days in our WRMP Annual Review which we submit on 30 June. The Annual Review is then approved each year by the Environment Agency.

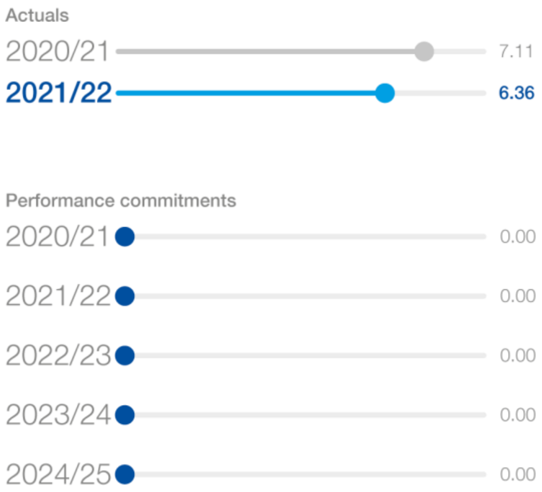
Our one AIM scheme site at Ormesby Broad, Norfolk, is designed to protect its valuable designated habitats and ecology. This year's summer (May to September inclusive) rainfall was around the long-term average once again. We managed broad water levels to remain well above the AIM trigger point and performance was as expected, given the average rainfall over the summer period.

OUTCOME 8: Our drinking water is clean, clear and tastes good

AMBITIOUS GOAL: Promote confidence in our drinking water so that nine out of ten of our customers choose tap water over bottled water.

- Water quality compliance (CRI) – common
- Event Risk Index (ERI) – bespoke
- Discoloured water contacts – bespoke
- Satisfaction with taste and odour of tap water – bespoke

Water quality Compliance Risk Assessment (CRI) - PR19NES_COM03



We have not achieved this PC.

CRI is a **common**, penalty-only, calendar year PC using a risk-based monitoring methodology, which assesses water quality compliance against our statutory obligations.

Our CRI was 6.36 (to 2 decimal places) against a PC level of 0, with penalties applying for performance higher than 2.0, incurring a penalty of £6.078M. This is marginal improvement to our overall score in 2020. For 2021 most of our CRI score is derived from compliance failures in our Essex and Suffolk operational area whilst in 2020 it was primarily the North East. When a failure occurs at an asset or in a supply area which is subject to an agreed programme of work with the DWI, the DWI's compliance assessment will increase the associated CRI score. In 2021, this effect increased the CRI total by 2.8 units.

The biggest impact on CRI for 2021 was a bacteriological failure from a water treatment works in Essex area, which accounted for 2.453 units. This represents more than 30% of the final figure and this single failure would exceed the penalty deadband itself in any year. There was no definitive cause for the bacteriological failure at Hanningfield following a detailed root and branch investigation. A few minor issues were observed, and these have been rectified. We now have one outstanding action left which is the inspection of the treated water reservoir; this is planned for later this year. A sampling campaign at the time of the failure demonstrated that the result was confined to the treatment works and had no impact on customer supplies or public health.

More than 85% of the sample failures recorded in 2021 were at customers' taps at the point use. Over half of these results were because of internal plumbing or the property supply pipe and therefore did not attract any CRI points. In these circumstances, we work closely with the customer to understand the issue and determine a root cause. Support for the customer can take several forms, including the issue of precautionary advice and bottled water while investigations continue, education and awareness on tap hygiene and cross contamination in the home, and the replacement of lead communication pipes supplying a property where the risk is shown to be elevated. Our aim is to make sure customers retain a high level of trust in the tap water we provide.

We are seeing the benefits of the enhanced service reservoir maintenance programme and recorded just three service reservoir (SR) failures in 2021, a large improvement to previous years. These were all in the Essex region. In the North East where most of the scrutiny has previously been, compliance was 100% for the year.

In the last 12 months, we have also completed the full replacement of a treatment site in Berwick (Murton), which will provide more reliable supplies and meet future drinking water standards. This will be supplemented in the next year with the completion of the new Horsley works feeding large proportions of Tyneside, this new works is partially in supply. The replacement of three sites in Northumberland is to be completed in 2022 along with the completion of the installation of UV treatment at two works supplying the Durham and Wearside areas.

We are continuing with the enhanced programme of treated water storage tank inspections to mitigate some of the risks identified at these sites, alongside a risk review of treatment processes. We're disappointed to not hit our high standards in this area as we are committed to achieving industry-leading levels of CRI and are delivering our long-term plans to reach this, as well as working closely with the Drinking Water Inspectorate (DWI). We've accelerated and increased funding in our base capital programme as part of a transformation plan with the DWI.

We are continuing to prioritise our efforts around water treatment where CRI risk is highest, and areas of focus include filter media refurbishment, carbon regeneration, and water quality minor works activities such as on-line monitoring capability to increase resilience and control of the treatment processes.

The journey of water from treatment through to customer tap is important, and in our networks, we are continuing with the enhanced service reservoir maintenance programme, inspecting and (where applicable) repairing a higher number of tanks per annum to maintain the integrity of these assets and minimise any water quality risks. We are using a combination of physical assessment and technologies such as Remote Operating Vehicles (ROVs).

We are also **trialling smart network innovation** to allow real time operational decisions to be made on the quality of water being supplied through our networks and so improve the customer experience.

Case study: Water industry skills champion Aleck Bruce

One of our Training and Competence Specialists has been named the Water Industry's Skills Champion for 2021 after helping to shape training that will support thousands of people across the country and make sure key services continue to be delivered by highly trained teams.

Aleck Bruce, from Darlington, received the accolade from the Institute of Water, an organisation which supports the careers of people within the industry, and Energy & Utility Skills, which backs skills development across the wider sector.

He was recognised for having played a key role in developing a wide range of industry training standards, including those that shape Apprenticeships and safety procedures.

Aleck chaired the UK committee which implemented the e-version of the industry's National Water Hygiene Card and was part of the Industry Hygiene Best Practice Group, which guides the work of water companies and suppliers.

He has also chaired a group involved in producing the new Apprenticeship standards for water production and network operation for the Institute for Apprenticeships and Technical Education. These will help to make sure those striving to work in the industry, or who are using Apprenticeships to update their skills, receive training that meets the highest and most up to date standards.

Additionally, Aleck chairs the industry-wide Water Assurance Assessment Panel, and regularly sits on the apprentice final decision panels as an industry expert.

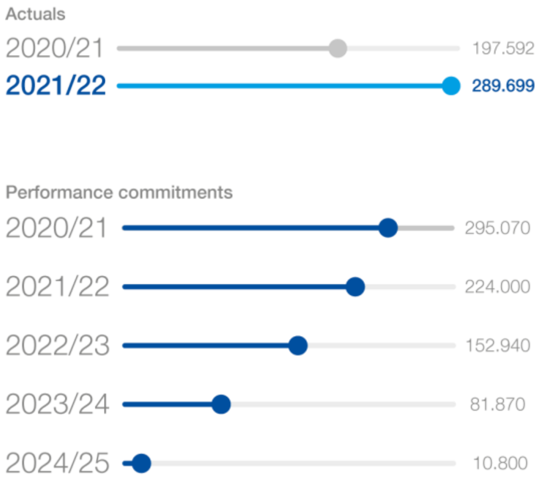
He said: "It's vital that the people who work in our sector are trained to the best possible standards, whether they have just started their careers or have been in the industry for 30 years.

"It's a privilege to play such an active role in helping to shape training that will not only enable this, but which will help keep people safe while delivering the essential services we provide.

"I'm honoured to have been recognised by the Institute of Water and EU Skills in this way."

Erin Price, our Head of Talent and Training, added: "We're really proud of the work Aleck does, not only within Northumbrian Water but for the industry. It's vital work that goes on behind the scenes but makes such an impact on the successful delivery of water and wastewater services across the whole of the UK, and the award is really well deserved."

Event Risk Index (ERI) - PR19NES_BES13



We have not achieved this PC.

This is a bespoke, penalty-only, calendar year measure and this PC incentivises us to promote a proactive approach to risk mitigation of water quality events, including understanding the impact of events on customers.

Events are assessed by the DWI, and the assessment considers the seriousness of an event, our response, the population impacted, and the duration. During 2021, 37 events were notified to the DWI for assessment, resulting in 289.699 units against a PC of 224 units, incurring a penalty of £0.072M. This represents a deterioration from last year and we are disappointed we have not reduced the occurrence and/or impact of water quality events on our customers.

The outcome in 2021 was influenced by two events which together generated 216.7 units. A communications failure on a telemetry station at Mosswood, one of our major water treatment works (WTW) in the North East, resulted in sub-optimal treatment for a short duration. This was a high-potential situation which is why it attained such a high ERI score, however the quick response by the site team meant that customers supplied by this site did not experience any impact to service.

The second event related to Storm Arwen in November 2021, one of the most powerful and damaging storms in a decade. The Met Office issued a red weather warning and while the storm was notable both for its extreme wind speeds and freezing temperatures, many sources point out that what made the storm particularly rare and destructive was the direction of the wind. Significant power disruptions were experienced across Northumberland and parts of County Durham because of the extreme wind speeds, and this interrupted supplies over several days.

The situation was declared a civil emergency under The Civil Contingencies Act (2004). We commissioned Jacobs to prepare a report into our storm preparedness and response. Jacobs's findings concluded that our extreme event preparedness was up to industry standard and that we went above and beyond to attend to our customers in the aftermath of the storm.

We're committed to improving on ERI performance and investing in our assets.

We received positive feedback to our response, particularly around alternative water provision, customer communications and resilience.

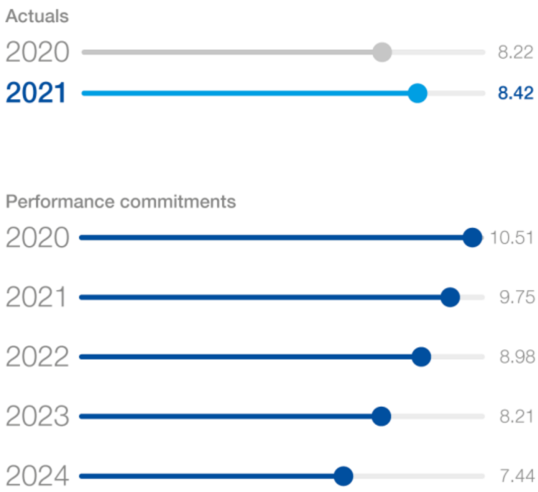
"We have our water back. Please pass on our thanks to your technicians for all their hard work."

"Well done to the guys who worked tirelessly to reinstate our supply – give them a good Christmas bonus."

"Thank you for the excellent work you had to do to get us all linked again to mains water. On behalf of Scremerston stand up and take a bow."

"Mrs X says she really appreciates getting through to speak to someone. She says that whatever is happening, she can always speak to someone here and that has been very rare over the storm period.

Discoloured water contacts - PR19NES_BES11



We have achieved this PC.

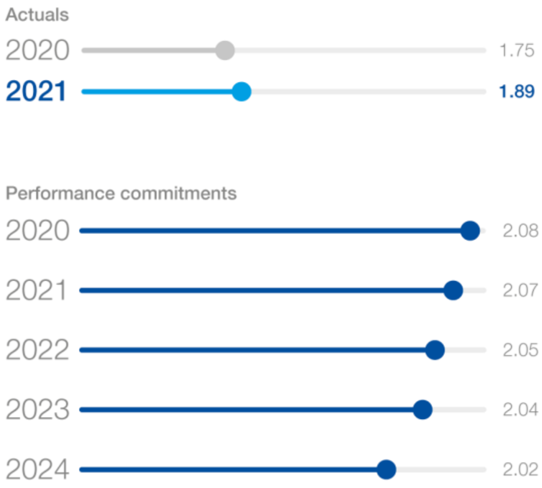
This is a bespoke calendar year measure that reflects the number of times we've been contacted by customers due to the appearance of their tap water not being clear, per 10,000 population. The appearance measure covers seven contact types including discolouration (brown/black/orange and blue/green/pink), aerated water, particles, and general conditions.

Our PC this year was 9.75, which we've beaten, earning a reward of £1.168M. We've continued to perform better than our PC for the seventh year in a row.

Our plan continues to focus on appearance: discoloured water – brown, orange, or black, which is our major contributor of contacts to this measure. Very occasionally, and for a short time, customers' tap water may appear discoloured. This is caused by the disturbance of harmless material in our water supply network, possibly caused by a burst, leak or third-party activity. We are continuing to progress with our programmes of work agreed with the DWI to improve the number of trunk mains in which flow can be automatically raised with less risk of disturbing mains material and causing discolouration in downstream supply areas. Continuing to flush smaller sized pipes closer to customers is happening on a prioritised basis as well as investigations into how to improve the other contact types such as water coloured white due to aeration. We'll also look for innovations that can cleanse parts of the network which cannot be managed with our current techniques.

We've increased the number of text messaging alerts to inform customers that we are aware of an issue and are investigating the potential cause. We've also continued with employee training, to make sure we are using the correct operational techniques, which we know helps to manage the number of contacts we receive while we work on the network.

Taste and smell contacts - PR19NES_BES12



We have achieved this PC.

This bespoke measure reflects the number of times we've been contacted by customers to report perceptive issues with the taste or smell of their tap water. We want our customers to be satisfied with the taste and smell of our tap water.

We received 847 taste and smell contacts in 2021. This level of performance is better than the upper quartile (top 25%) threshold, and better than our stringent PC of 960 contacts. An outperformance reward of approximately £0.158M is payable for this measure. The drinking water we supply is very high quality, but occasionally some of our customers perceive different tastes or odours. This could be due to:

- The use of chlorine to maintain good hygiene in our water supply network.
- A change in where a customer's water comes from, or how it is treated.
- Issues with a customer's own plumbing inside their home.
- A change in a customer's perception.

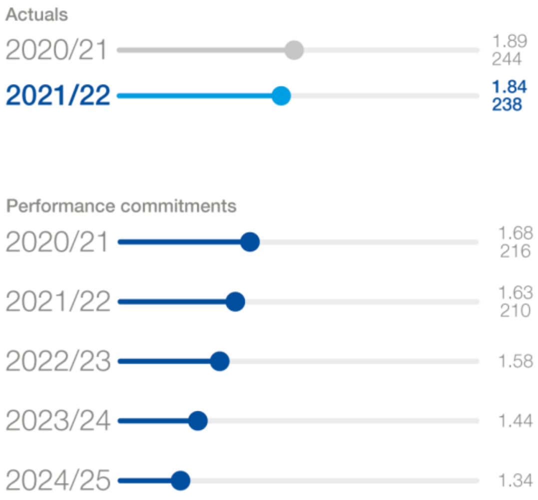
Around 40% of customer taste and smell contacts are recorded as chlorine based. We have been carefully controlling the level of chlorine in the water, balancing the needs of water safety and water acceptability. Customer engagement has also identified that change causes concern for customers and can therefore trigger contact. Water supplies for most areas routinely come from the same source. However, to carry out asset maintenance, or in response to reactive issues like a burst pipe, water to an area can be re-zoned through a different route or come from a different source treatment works. It may also be necessary for us to change the source of supply in drier weather to protect resources and preserve stocks.

OUTCOME 9: Our sewerage service deals with sewage and heavy rain effectively

AMBITIOUS GOAL: Eradicate sewer flooding in the home as a result of our assets and operations.

- Internal sewer flooding – common
- Repeat sewer flooding – bespoke
- External sewer flooding – bespoke
- Risk of sewer flooding in a storm – common
- Sewer blockages – bespoke
- Sewer collapses – common

Internal sewer flooding - PR19NES_COM08



We have not achieved this PC.

This is a **common measure** with financial incentives associated with under and out performance.

Internal sewer flooding is one of the worst performance failures our customers can experience. We have maintained the internal sewer flooding performance we reported last year which showed a substantial reduction of 48% in 20/21.

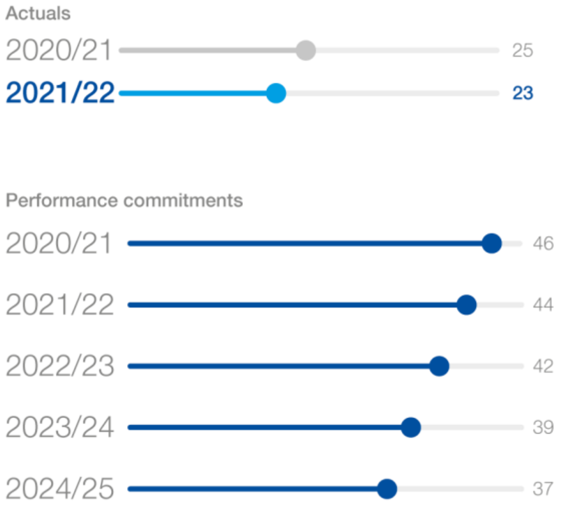
Our target was to improve further but 2021/22 proved much wetter than normal, with major storms and floods such as Storms Arwen and Dudley. This wet weather had major impacts across our region and meant that our performance is not quite where we expected it to be, despite delivering all the activities in our flooding improvement plan to schedule.

We have estimated the impact of the wet weather has led to 20% more incidents featuring in our 2021/22 performance compared to expectation. Even though this was a challenging year, we know this isn't good enough. We have underperformed against our PC and in accordance with our structure for this measure, an underperformance payment of £630,000 will be paid. We have apologised to the affected customers and have worked hard to mitigate the damage by clearing blockages as quickly as possible, or by repairing the pipe/defect if it is relatively straightforward and cost effective to do so - particularly where there is a risk of repeat flooding. For hydraulic incapacity (of the sewer network) we will carry out investigations to confirm the cause and identify a solution. This is then prioritised along with all our investments. We have paid affected customers Guaranteed Standards Scheme (GSS) payments in line with our statutory obligations.

We're working to make sure this is minimised in future, and that we can cope with increasingly wet weather conditions. We are continuing our monthly review of our tactical plans to identify the initiatives that are working well and those we could improve. This has already helped us plan our approach for 2022/23 and will inform the decisions we need to make for the next three years so that we can achieve our future targets. While we already perform relatively well against the recommendations recently laid out in Ofwat and CCW's joint sewer flooding research report, we recognise that areas for improvement exist.

We will also be publishing our DWMP in June 2022 and this will help inform our plans for future investment up to 2060 around sewer flooding and other performance areas, such as pollution and storm overflow discharges. This investment will help us to reduce sewer flooding in future.

Repeat sewer flooding - PR19NES_BES17



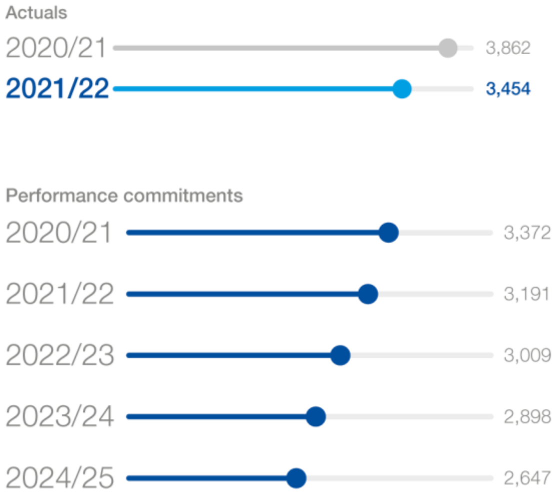
We have significantly outperformed our PC.

In line with our ambition to reduce sewer flooding in the home as a result of our assets and operation, our bespoke PC for repeat sewer flooding (properties which have flooded internally more than once in the last five years) remains an important performance measure for us and for our customers.

This result is down to several factors including increasing rigour through our manager-led investigations of all potential repeat flooding incidents that understand cause, effect, and accurate categorisation. Our broader flooding tactical plan continues to drive down the risk of internal, and therefore repeat flooding incidents, through tackling customer misuse, improving the network in known flooding hotspots and delivering more property level protection schemes. Collectively these activities drive down the risk of internal and repeat sewer flooding accounting for the 76% reduction we have achieved in repeats since 2019/2020.

In accordance with our incentive structure for this measure, we’ve earned an outperformance payment of £1.157M.

External sewer flooding - PR19NES_BES16



We have not achieved this PC.

This is a bespoke measure with financial incentive.

We continue to improve our external sewer flooding performance, reducing our reported numbers by a further 12% compared to last year's performance. This further reduction in external sewer flooding incidents means that we have reduced our overall number of incidents by 28% since we first implemented our sewer flooding reduction plan.

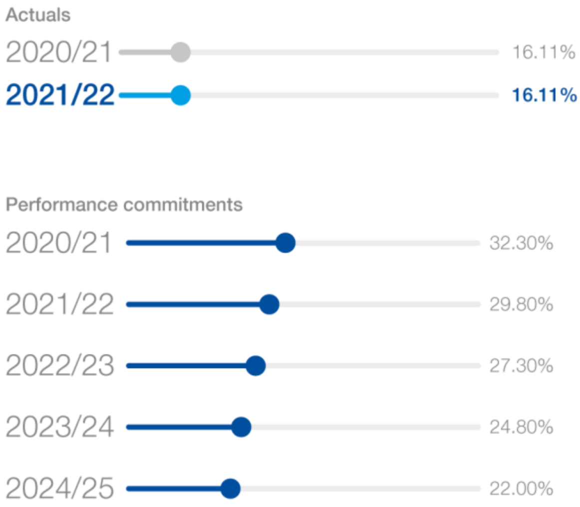
The wet weather we experienced also impacted our expected external sewer flooding performance meaning that despite this further improvement our performance was also not where we anticipated that it would be for 2021/22.

The extreme weather event on 5 October 2021 led to a total of 258 contacts being received on that day, compared with a typical average of around 28 contacts. This is the fourth highest daily contact we have received since 28 June 2012 (Thunder Thursday). As part of our response to this event, we set up a dedicated project team to assist with investigating all these potential flooding incidents.

As a result of our performance, we have underperformed against our PC and in accordance with our structure for this measure, an underperformance payment of £1.649M will be paid.

In response to the increased number of external flooding incidents associated with wet weather, we have expanded our sewer flooding studies to investigate chronic repeat external incidents, as well as reviewing appropriate measures that we could provide for properties through our existing Property Level Protection programme. We have paid affected customers Guaranteed Standards Scheme (GSS) payments in line with our statutory obligations.

Risk of sewer flooding in a storm - PR19NES_COM11



We have achieved this PC.

This is a **common measure** with no financial incentive.

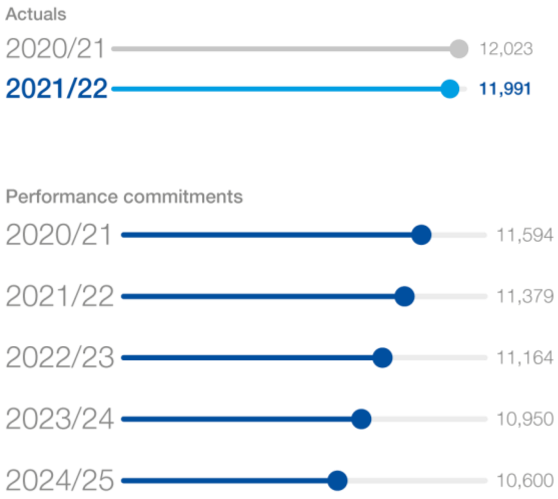
As result of the supporting hydraulic modelling work that we carried out as part of our Drainage and Wastewater Management Plan (DWMP), we achieved our 2024/25 performance commitment for this measure last year, four years ahead of schedule. As our first DWMP is nearing completion and will be published in draft by the end of June 2022, this modelling work has now been completed and there has been no further opportunity to reduce our reported number further.

Our 2021/22 performance therefore remains at 16.11% in accordance with the number we published in our last APR.

This measure is reputational only and therefore no outperformance reward has been earned.

As we develop future DWMPs into and beyond the next regulatory reporting period, we will seek to lead the industry by further outperforming any future performance commitment in line with ambitious goal to eradicate sewer flooding in the home as a result of our assets and operations.

Sewer blockages - PR19NES_BES15



We have not achieved this PC.

Blockages are a significant contributing factor to sewer flooding which is why we have this bespoke measure in place.

We have made a reduction in the number of sewer blockages we reported compared to last year, but despite this we have not achieved our PC. In accordance with our structure for this measure, we've incurred an underperformance penalty of £0.883M.

Analysis we have carried out shows our improvement plan initiatives such as our industry leading Bin the Wipe campaign are having a significant impact – we have now engaged more than 75,000 households and this has led to a 45% reduction in blockages in the areas we have visited.

However, there is more we can do to increase our reach across the region, which is why we are now targeting an additional 100,000 households in prioritised locations by sending an additional 100,000 households letters explaining about the work we are doing to reduce sewer blockages, and the impact that flushing wipes down the toilet has on our network and on the environment. Our plan is that Bin the Wipe will engage 270,000 households directly by December 2022.

Our FOG (fats, oils and grease) advisors are doing a great job educating food service establishments on grease management and best practice to prevent FOG from entering our network. They are also targeting repeat domestic offenders which has uncovered blockages forming in the network, allowing us to clear them before they cause an issue.

We are also improving our training, rigour, and governance that we have in place for our blockage investigations and reporting and continue to review and analyse the data trends that we observe. We have begun to embed continued training and learning on clearing and removing blockage material from the system to prevent blockages forming downstream, increased awareness and investigation to identify possible secondary blockages within the vicinity of the originally reported incident, and further assessment and recording of blockages first reported as odour contacts.

Using a third party to provide an independent assessment of our performance data will help us to make sure we effectively and efficiently manage sewer blockages and continue to have the right interventions in place to help reduce the numbers that we report.

Case study – Bin the wipe

Our war on wipes continues to help protect homes and the environment from pollution.

Our industry leading Bin The Wipe campaign aims to help people understand the problems caused by sewer blockages containing wipes that have been flushed down the toilet.

By helping people understand that this can cause waste to back up into people's homes, or be forced out into the environment, we hope to encourage people to put wipes into the bin, not down the loo.

When we first launched Bin The Wipe at the start of 2020, we trialled a different initiative in parts of Redcar, giving away bins. More than 50% of homes do not have bins in their bathrooms, and the aim was to make better flushing habits as easy as possible.

While this pilot was a success, resulting in a 43% reduction in the number of blockages caused by wipes in the area, a trial of the letters and tracking took place in Stockton, with even greater success, and this is now being rolled out in flushing hot spots across the North East.

Over the last year we've targeted hot spot areas across the North East including around 4,500 homes in Redcar and 6,000 homes in Billingham.

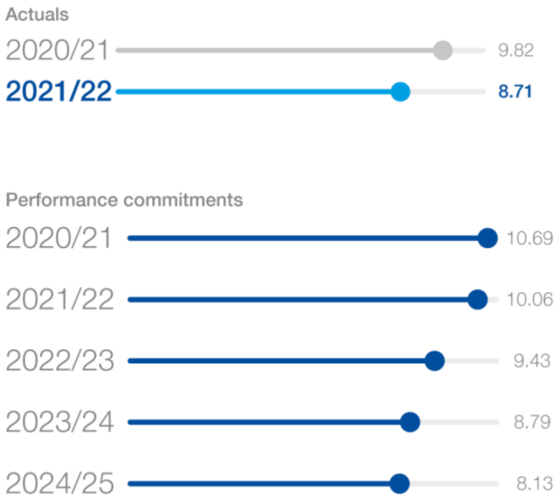
Customers receive letters explaining the issues, and how a team will be monitoring the area's sewers, finding flushed wipes, and tracking back up the network to the properties from which they were flushed.

As the team close in on streets, or even individual homes from which wipes are being flushed, further letters and doorstep conversations will reinforce the need for people to stop using their toilets as bins.

Simon Cyhanko, our Head of Wastewater Networks, said: "Wipes that have been flushed down the toilet are the number one contributor to blockages in our sewers. We find them in more than 60% of the blockages we clear.

"We know not everybody in the area flushes wipes, and we thank those who dispose of them properly. However, those who do are putting not just their own homes, but those of the people who live near them, at risk of sewer flooding.

Sewer collapses (per 10,000km sewer) - PR19NES_COM14



We have achieved this PC.

This is a **common measure** with an associated penalty.

We are continuing to reduce our sewer collapse number and have outperformed our PC once again, reducing our reported sewer collapse number by a further 10% compared to last years' performance.

We carried out specific training within our operational teams to embed the learning and best practice we have identified throughout the year. We're also seeing several sewer collapses avoided through proactive investigations, for example those identified as part of our find and fix activities associated with our Flooding Other Causes Programme.

In accordance with our incentive structure this measure is penalty only and therefore we do not earn a reward for our outperformance.

THEME FOUR: LEADING IN INNOVATION

OUTCOME 10: We are an innovative and efficient company

AMBITIOUS GOAL: To be leading in innovation within the water sector and beyond

We measure innovation in multiple ways across the business, as detailed in the below table.

TABLE 5

METRIC	DESCRIPTION/HOW WILL MEASURE	2018/19	2019/20	2020/21	TARGET	2021/22 ACHIEVED
Reach	Social media reach	4.1M	8.6M	15M	>5M	**2.3M**
Culture	No. of innovation ambassadors	14	47	71	All employees of NWG	**82**
Employee participation	No. of employees taking part in Innovation Festivals	328	484	645	>20%	**439**
Collaboration	Innovation Festival attendees	2,373	3,311	2,730* (digital event)	>2,500	**4000**
External collaboration	No. of businesses/organisations attending Innovation Festivals	510	734	941	>140	**800**
Added value	Training delivered as part of Innovation Festivals (hours)	23	46	400	>12	**256**
Design sprints / hacks	No. of innovation activities	16	23	40	>20	**44**
Ideas generated	Ideas unfiltered	334	615	2,000	>300	**1,675**
Ideas in the innovation pipeline	Total no. of ideas	42	56	70	>50	**87**
Success rate (%)	Projects adopted as BAU (business as usual)	-	38%	41%	40%	**40%**
Potential value (£)	Potential value of the pipeline	£5m	£15m	27M* estimated	£20M	**£37M**
Innovation funding secured (£)	External funding secured	-	-	£475,000 for innovation; £350,000 for research & development	>£500,000	**£12.03M**

Leading in innovation

Innovation is at the heart of everything we do as it's one of our five core values. We are working hard to enable innovation right across the business so we can deliver the ambitious goals set out in our Business Plan and to make sure we are leading, in both the water sector, and beyond. This year, in addition to building on the strong foundations we have laid with regards to fostering an innovation culture within the business, we have also focused our efforts externally; on bringing in external funding to grow our innovation capacity and growing our external partnerships.

Innovation culture

Innovation has replaced creativity as one of our five company values and we are enabling more of our employees to play an active role in innovation. Our innovation ambassadors are at the core of this process, enabling and spreading an innovative culture across our business and driving the implementation of new ideas so innovation becomes business as usual. This group has grown from 14 in 2018 to over 80 people in 2021 spanning all aspects of the business and across all levels. We also engage monthly via our Innovation Connect newsletter and invite external organisations that excel in innovation to a quarterly Innovation Connect virtual call. Alongside our core skills training programme and the NWG Innovation University which offers bite-sized training covering all the core elements of innovation, we are running a Creative Leadership programme with the Royal College of Arts to extend the thinking of 35 of our key leaders across the organisation. In addition, innovation has been a key part of our last two Leadership Conferences to emphasise the role our leadership teams have in growing the innovation culture across the business.

Innovation Festival

The Innovation Festival has now been successfully run five times in three different formats always bringing newness and generating genuine business impact. The festivals are an important element of our innovation programme and are key to generating ideas given their outward facing nature that creates and builds meaningful partnerships. These events are now widely anticipated and attract industry-wide participants nationally and from across the globe. This year, the global pandemic had loosened its grip slightly, so we opted to run our first hybrid event. This was our biggest festival with 54 activities taking place, 38 sprints and six of which were hybrid in format (both physical and virtual). The festival attracted 62 sponsors from 22 sectors, 800 organisations with participants from over 40 countries. In addition, Sydney Water ran its first Innovation Festival at the same time using the same blueprint as ours. We passed on our expertise to help them run their event, further reinforcing our leadership in innovation globally. We also had eight sprints that had global hubs including US, India, Ireland, and Australia. The hybrid nature of the event meant it was very inclusive and accessible 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.

Since our first Festival we have taken more than 200 ideas back into the business and put more than £1.5M back into the local economy, demonstrating our convening power to bring others into our regions. In 2021 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 had a social reach of over 2.3M. The festival output projects cover many aspects of the business, including the Tipping Point tool that has the potential to save many millions in our asset programmes. 2021 also saw the fruition of the National Underground Asset Register (NUAR) as the tender was secured by Atkins. This idea was one of the first to come out of our inaugural festival and was the first years' worth of work in a week in 2018 which demonstrates what is possible from the festival and brings to life our very strong cross sector convening power.

Innovation fund

During 2021 there have been three rounds of the Ofwat Innovation Fund. This competition is set up to fund projects that are beyond business as usual and encourages collaboration across the water sector and beyond. This competition has great potential for us as it will enable us to fund and run innovation projects that would normally be beyond our capacity, both in terms of costs and personnel. Having been successful in the first round in February 2021 we secured funding for two projects, the UK Water Sector Centre of Excellence (Spring) and a sector-first project to turn ammonia into green hydrogen fuel, collaborating with Organics, Wood Group, and Warwick and Cranfield Universities. In round two, we submitted five bids into the Catalyst round (one stage process for projects between £100K-£1M). We picked up three winning bids out of the 13 funded, securing £1.79M, which was approximately a third of the fund allocated (£5.2M). The projects were: SuPR Loofah, a sector first phosphorus removal technology, Support for All, a platform to help vulnerable customers, and Treatment to Tap, a sensor as a service business model to improve water quality. In the Transform round, we submitted three bids and were successful in securing full funding for The National Leakage Research and Test Centre (£5.3M), an ambitious, first of its kind leakage test centre for the sector to significantly fast forward technology development in this vital space, and phase 1 funding for Stream (£880K of a £5.7M bid), an open data platform for the water sector.

Throughout the funding competition so far, we have won a total funding amount of £12.25M for eight winning bids. In addition, we've submitted the most bids (21), secured the highest number of winning bids (8), and have secured £12.25M in funding which is already more than we originally contributed to the Ofwat fund for 2020-25 (£11.5M). In addition, we have also had success in securing funding from the Smart Factories Innovate UK bid (£50K), which will create a blueprint for water capture and re-use from an innovative semi-conductor factory, £100K from the Digital Catapult's Made Smarter competition for a novel, cheaper water quality sensor, and £500K from the European Space Agency for collaborative project with MGISS and NGN around Interruption Prevention Alert Service demonstrator. We are going to continue to leverage this momentum in future Ofwat and other funding mechanisms.

Value from innovation

During the last year we have been focusing on speeding up the achievement of value from innovation, by supporting the seed of an idea through to it becoming business as usual. We have a very active innovation pipeline with more than 80 ideas being considered across the business. The estimated value of ideas in the pipeline, if successful is worth more than £37M. We actively support employees to come forward with innovative ideas and support their development. We have had some brilliant technologies adopted through this process which are now making a difference, such as the Pressure Vessel which can be quickly deployed to reduce interruptions to supply, and a burst rising main sensor which is a simple device that is deployed in rural wastewater sites to alert failure which is preventing pollution events. These are a few examples of how innovation is really making a difference to our customers, now and for a more resilient future.

Case study – Water Breakthrough Challenge

We have secured £1.8M worth of funding for three different projects which will help to further improve services for customers and make operations more efficient.

We've acquired the significant amount of funding thanks to three winning bids in the second round of the Water Breakthrough Challenge, Catalyst Stream competition ran by Ofwat and innovation foundation Nesta.

The large-scale financial backing, which will see the money split between three different projects, will be a great investment into the region, and will support work into initiatives aimed at improving water quality, as well as wastewater and customer services.

The first project to receive funding is called 'Support for All'. This is aimed at helping to establish a region-wide cross-utility Priority Services Register so that customers in vulnerable circumstances can receive help from all their utility companies when needed.

The second project is called 'Treatment-2-Tap' and will see engineers adding water quality sensors to the final leg of water's journey from treatment works to tap. This will then be studied, in collaboration with four other water companies, and the data gained will help to further improve the water quality for the customer.

The final project is known as SuPR Loofah (Sustainable Phosphorus Recovery) and this initiative involves the recovery of phosphorus from wastewater using an innovative, micro-algae coated on loofah material and held in place by a sustainable polymer coating. Once the 'SuPR Loofah' is full of phosphorus it will be removed, replaced and the phosphorus recovered, preventing environmental damage.

All three projects are customer focused and are set to have a positive benefit to customers across the North East.

Angela MacOscar, our Head of Innovation, said: "Our customers are at the heart of everything we do, and here we have three incredible projects that are set to deliver great benefits for them.

"We are incredibly proud that out of the 13 winning bids, we have managed to secure three of them – this shows how Northumbrian Water is truly leading the way when it comes to innovation both in the region and in the sector.

"I can't wait to see what happens to all three of these projects over the coming months, and I'm looking forward to see each of them making a real-life difference to the people in our communities."

THEME FIVE: IMPROVING THE ENVIRONMENT

OUTCOME 11: We help to improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife

AMBITIOUS GOAL: Have the best rivers and beaches in the country

AMBITIOUS GOAL: Have zero pollutions as a result of our assets and operations

- Treatment works compliance – common
- Bathing water compliance – bespoke
- Pollution incidents – common
- Water Industry National Environment Programme (WINEP) – bespoke
- Delivery of WINEP requirements – bespoke

Our care and respect for our natural environment goes far beyond our regulatory requirements. We work constantly to protect and bring about improvements for our coasts, rivers, and watercourses in all areas of our operations.

Our vision is to be the leader within our sector for environmental performance for our customers and communities - and we have achieved several significant successes towards this, including:

- We achieved the top four-star rating in the Environment Agency's most recent annual Environmental Performance Assessment and secured a 'green' assessment in areas such as serious pollution incidents and self-reported pollution incidents among others.
- Our pollution numbers associated with combined sewer overflows have fallen by over 95%.
- Our work has also contributed to 32 of the North East's 34 designated Bathing Waters achieving the top ratings of 'excellent' or 'good' in Defra's most recent classifications (in 2021), up from 26 in 2013.
- We also have an ambitious goal to achieve net-zero status in relation to our operational greenhouse gas emissions by 2027, having already reduced our carbon emissions by over 68% since 2019, significantly outperforming against our target.
- This has all been achieved while offering our customers the lowest wastewater bill in England.

We are proud of the level of environmental investment we committed to in the current five-year investment period, which reflects our customers' priorities as we understood them pre-Covid, but we understand that times and expectations have changed.

In November, we, along with all other wastewater companies, were contacted by the Environment Agency (EA) and Ofwat about measures to ensure permitted '**Flow to Full Treatment**' requirements are being achieved at our Wastewater Treatment Works. This was followed by a further request from Ofwat in March 2022

We are investing £45.56M in flow measurement schemes up until 2025. This will give us much greater coverage of MCERTS (the EA's Monitoring Certification Scheme) flow monitoring and have completed investigations to establish whether we can install the same monitoring to additional sites for completion between 2025 and 2030.

We are complying fully with the Ofwat and EA investigations and provided extensive information to the EA and Ofwat in November and December last year.

In early March 2022, Ofwat issued a formal notice (a Section 203 notice) requiring us to provide further information with a deadline for submission in early April. This notice is a formal investigatory step and indicates that Ofwat will carefully consider the information in light of our legal obligations. It does not necessarily imply that any enforcement action will follow, but it is a more formal process. We recognise the issue's importance to our stakeholders and customers and the gravity of the investigation, and we fully complied with the requirements.

Our investigations so far have shown that overall, across the 189 locations where we have these permits and based upon our own assessment of compliance, we have identified circumstances where we may not have always achieved the required FFT levels at four smaller sites.

- Seahouses Wastewater Treatment Works, which serves 2,579 customers, where we installed extra pumps in late March.
- Stokesley Wastewater Treatment Works, which serves 8,318 customers, where it appears grit and silt have penetrated part of our system, reducing the available flow. We have now corrected this issue.
- Togston Wastewater Treatment Works, which serves 628 customers, where we are assessing the effectiveness of recently installed new pumps along with checking for any further hydraulic restrictions on site. This was completed at the beginning of June 2022.
- Newbiggin Wastewater Treatment Works, which serves 37,633 customers, has a unique system for pumped inlet flows. Analysis indicates that it is inconsistent in being fully compliant. We optimised site settings and controls, which enabled us to move the site to consistent and full compliance and supplemented this with a hydraulic study of the site, all completed by June 2022.

For each of these sites we are now collecting data to confirm that they are operating in a fully compliant manner – this requires a period of time as the sites need to operate under periods of sustained heavy rainfall to verify full compliance. We will also continue further investigations of additional sites, to make sure we are compliant with our environmental permits and will update customers and stakeholders appropriately.

We publish regular updates on this matter on **our website**.

Our challenge now is to demonstrate how we can do even more to invest to protect and enhance our rivers so we have committed to nine ambitious pledges that we believe will be effective for our unique water environment and make a real difference to our communities.

1. We will work with the Environment Agency, Natural England, The Rivers Trust and Catchment Partnerships to identify, and have plans in place to eliminate, all impediments to our rivers achieving good ecological status caused by our operations.
2. We will invest in monitoring to provide 100% near Realtime Data on all Storm Overflows by 2023.

3. We will introduce final effluent, in-river upstream and downstream monitoring to get a greater understanding of environmental impacts of treated water by 2030.

4. We will implement Water Quality monitoring at the highest priority Storm Overflow locations by 2025.

5. We will reduce spills from storm overflows to an average of 20 per year by 2025.

6. We will work closely with The Rivers Trust through our strategic partnership and North East Catchments Hub to focus on river needs for investment through catchment and nature-based solutions, and to identify at least 2 inland bathing water sites where applications for designation can be made at the earliest opportunity. We are proud that already 95% of the NE population lives within an hour's drive from a beach with Good or Excellent bathing waters.

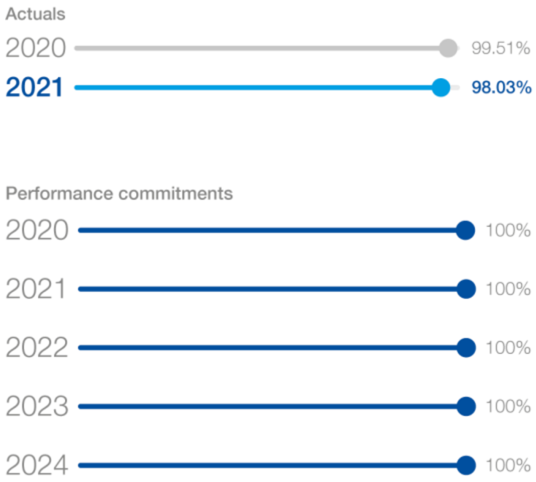
7. We will work with partners to achieve 100% of coastal bathing waters at Good or Excellent by 2030.

8. We will work in partnership to improve 500km of bluespaces (such as river banks and accessible water environments) for the public to enjoy in our regions by 2030.

9. We will double the number of our Water Rangers – our citizen scientist volunteers who are trained to help us monitor environmental conditions around rivers and take action to address wider river issues such as littering, fly tipping or signs of pollution.

We have recently published **A Vision for our Coasts and Rivers**, a report that outlines the pledges and how we will play our part in enhancing the local environment. It details our new long-term commitments to water quality, and our programme of work to 2025 that will help us achieve our goals.

Treatment works compliance - PR19NES_COM15



We have not achieved this PC.

This is a **common measure**. It differs slightly from that reported by the Environment Agency (EA) in its annual Environmental Performance Assessment (EPA) of water companies in England. This measure is reported as the total number of failing sites (rather than the number of failing discharges) where one or more numeric permitted discharges have been confirmed as failing in a calendar year. This is expressed as a percentage of the total number of discharges on the EA register. For both NW and ESW in 2020-25, this measure now includes both STW and WTW discharges and is subject to penalty for under-performance (EPA does not include ESW sites).

Our result of 98.03% has slightly declined since last year and as this performance is below the 99.00% deadband we will incur a penalty of £0.579M.

This result has been associated with three treatment work sites in our Northumbrian operating region (one STW and two WTW) and one WTW in the Essex and Suffolk area. The STW failing discharge was due to an ammonium failure with the WTW failures being chlorine (one works) and iron (two works) from a total of 204 eligible treatment works.

We have completed extensive investigations to establish the root cause of these events and identified corrective measures to mitigate the likelihood of a reoccurrence. Most of the corrective actions have been fully implemented with the remainder nearing completion. These corrective measures have included additional enhancement to both the sites operating procedures and preventive maintenance schedules along with the installation of additional process infrastructure. Each failure has or continues to undergo a thorough investigation process to identify any further mitigation measures to avoid future failures.

The EPA metric specifically applies to treatment works in the Northern region which have three failing discharges against a total of 177 (one STW and two WTW).

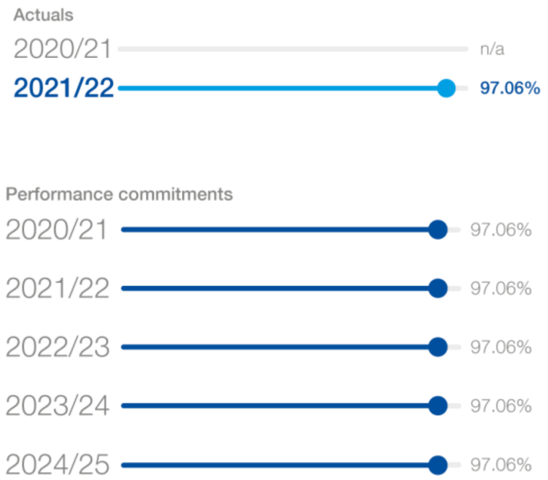
Although 2021 has resulted in a penalty for performance below our PC we have continued to achieve our 4-star company status in the Environmental Performance Assessment (EPA) from the EA.

We remain focused and proactive in using leading indicators in monitoring our treatment works taking regular samples that are analysed for compliance, including phosphorous and ammonia, and specific substances that may accumulate to cause a problem in the water environment.

We continue to do our best to deliver against the challenging new standards, whilst also adapting to challenging circumstances, as well as a very stretching settlement from Ofwat.

We must also continue to be adaptive and plan to meet future requirements including the challenges of emerging themes whilst satisfying our continued obligations in contributing to a 'Good' Water Framework Directive (WFD) status in our rivers.

Bathing water compliance - PR19NES_BES19



We have achieved this PC.

Our stretching bespoke measure is to contribute to all the region's bathing waters being 'Good or Excellent'. Previously for 2015-20 our PC was to contribute to all the regions bathing waters being 'Sufficient or better'.

Covid-19 had impacted the Environment Agency (EA's) regulatory bathing water sampling during 2020 and as a result, bathing waters were not classified for the 2020 bathing season in England. This meant that the classifications for 2019 were taken forward into 2020.

Bathing water classifications were assessed for the 2021 bathing season with 32 out of 34 bathing waters either Good (7) or Excellent (25).

The two bathing waters that haven't met our PC of 'Good' or 'Excellent' are Marsden ('Sufficient') and Cullercoats ('Poor').

We have conducted a WINEP investigation at Marsden to understand the deterioration from Good in 2019 to Sufficient in 2021. The classification is affected by significantly higher than normal sample results in both August 2018 and August 2019 that are linked to rainfall events. The study has concluded that local diffuse sources represent the predominant cause and removal of our only asset, a storm overflow, would not improve the classification.

The terms of this performance commitment provide scope for an exemption where it can be proved that NWL assets are not contributing to any deterioration in classification. We have **written confirmation from the EA** that this is the case for

Marsden and accordingly have reported our performance for the year as 33/34 (or 97.06%) comprising 32 beaches rated as Excellent or Good along with Marsden rated as Satisfactory but with a written exemption confirmed by the EA.

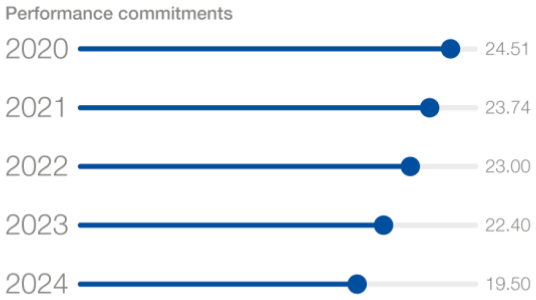
Cullercoats had deteriorated from Good in 2016, to Sufficient in 2017, and has been classified as Poor for 2018, 2019 and 2021. Due to the break in classification for 2020, the 5-year consecutive count before de-designation for Poor bathing waters has been reset in 2021. This means that the earliest Cullercoats could be de-designated due to five consecutive Poor classification will now be 2026 instead of at the end of the 2022 season.

Our WINEP investigation at Cullercoats commenced in 2020 and builds on the extensive partnership investigations with the EA and local authority undertaken since 2017. A detailed review was carried out of all previous studies including the NEP investigation in 2011 that identified an uncharted polluted drainage culvert belonging to the local authority that was capped off from the beach. Further targeted investigations and surveys were then carried out to determine the most likely cause. Indications are that contaminated groundwater is the most likely primary reason for the deterioration in bathing water quality and that there is no evidence that our assets have an impact. We have had positive engagement with the Cullercoats Collective, a local interest group with wider-ranging membership including members of Surfers Against Sewage, but with a broad town-wide remit. We remain committed to working with our partners including North Tyneside Council and the EA to improve the seawater quality at Cullercoats for our customers, local businesses, and recreational users.

Another local community group we've been engaging with is Marske Litter Action to develop public understanding of how our wastewater system works and promote our Bin The Wipe campaign. In 2022 we are training the group to be Water Rangers, to help us monitor environmental conditions and improve the coastal area.

We continue to work in partnership to make improvements and maintain standards as seawater quality can be affected by many different sources, such as run-off from agriculture, seabirds and urban pollution, as well as from our assets. This includes working closely with the EA to understand all bathing water quality compliance issues and identify priority beaches for closer attention. Our bathing waters continue to be among the cleanest in the country.

Pollution incidents (Category 1-3 Wastewater) - PR19NES_COM09



We have achieved this PC.

We aim to avoid all pollution and our PC for all wastewater category 1, 2 and 3 incidents is a **common measure** for pollution using the EA's EPA methodology.

Our 2021 performance for category 1-3 wastewater pollution incidents was inside our PC target at 22.98 incidents per 10,000km of sewer and we have earned a reward of £0.227M.

This performance reflects a decision by the Environment Agency to exclude a number of incidents which occurred during Storm Arwen from its assessment of our performance – as these were deemed to be outside our control.

While we remain an upper quartile company for pollution incident performance, we are disappointed to have lost our Frontier Company status for the first year since 2018. We are determined to regain this position in 2022 and beyond.

One of the main reasons behind our increase in wastewater category 3 incidents was associated with power issues at sewage pumping stations (SPSs). These were either related to the incoming power supply or internal power issues affecting the service of the stations. We have conducted a thorough cause analysis to understand the reasons for these incidents and put in place measures to increase the resilience of these assets.

We are pleased that our number of more serious category 1 and 2 pollution incidents remains very low at one in 2021, a category 2 incident at a sewage treatment works associated to a compliance issue. This compares to one in 2018, two in 2019 and one again in 2020. Our aim is to have zero serious incidents.

We continuously learn and improve 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 and learning from others, such as through the industry Pollution Reduction Task Force group, we target our efforts to effectively reduce the number of incidents. In April 2022, we updated our published Pollution Incident Reduction Plan which outlines the initiatives that we are conducting to further improve performance. Examples of the interventions in progress are:

- A programme to install innovative telemetry to more than 150 descriptively permitted STWs by 2025.

- We continue to develop, trial, and use innovative sensor and monitors, for example, smart air valve monitors on rising mains and low-cost monitors on sewers near to watercourses, to increase our visibility of the wastewater system.
- A new programme of find (CCTV) and fix (root cutting and lining) launched in 2021 targeting around 25km of high-risk sewers initially and continuing into 2022.
- An action plan developed and delivered to inform developers (nationally and regionally) of the measures required to mitigate against pollutions occurring in our wastewater system.

Outside of our measures of service for pollutions, we continue to work hard to reduce those incidents attributable to our water treatment and supply networks. There were 22 incidents in 2021, mainly on our water supply network that included zero serious incidents. We continue to develop our processes, procedures, and response to these types of incidents that typically involve a burst water main and chlorinated water impacting a nearby watercourse. This has included environmental impact and pollution process training for all our water distribution employees and contractors.

The EA's expectation is that we will pro-actively 'self-report' at least 80% of all pollution incidents to them rather than rely on others to point out a problem. We consistently achieve high levels of self-reporting in surpassing the 80% requirement with an improvement to 89% in 2021 compared with 81% in 2020 and 80% for 2019. From 2020 onwards, the EA also expects a self-reporting level of 90% or more for sewage pumping stations (SPSs) and sewage treatment works (STWs). We again achieved 100% self-reported in 2021 against this new metric having attained 100% in 2020 also.

We were prosecuted for a pollution incident that occurred in May 2017 at Heads Hope Dene in Castle Eden County Durham. This was caused by a blockage in our combined sewer causing raw sewage to enter the stream. We are investing £5M on upgrades to the sewer network in the area to protect the environment and improve the resilience of our assets.

Case study – Saltburn, a mini treatment works

In February 2022 a sewerage treatment facility was built from scratch in Cat Nab car park, Saltburn, while repairs to a damaged sewer pipe took place.

A third party working in the Cat Nab car park on behalf of Redcar and Cleveland Council damaged the sewer pipe that pumps sewage and storm flows to be treated at Marske sewerage treatment works. A sheet pile, as part of riverbank stabilisation work, was driven through the pipe which crosses underneath the watercourse. When the pipe is fully operational, it carries up to 200 litres a second.

We worked on a construction plan to carry out a repair and install environmental mitigation measures. The location of where the main was damaged, next to the watercourse, made this a complex repair. Our team came up with an innovative idea to build a bespoke mini treatment works.

It was an industry first for a bespoke facility of this scale to be built and in such a quick turnaround (within two days). The plan was to construct a treatment works that would capture as much of the flows from the pipe as possible and will help us to protect the environment even more.

We worked closely with the Environment Agency and to help protect the environment we ran tankers continuously and placing straw bale dams in the beck to collect debris.

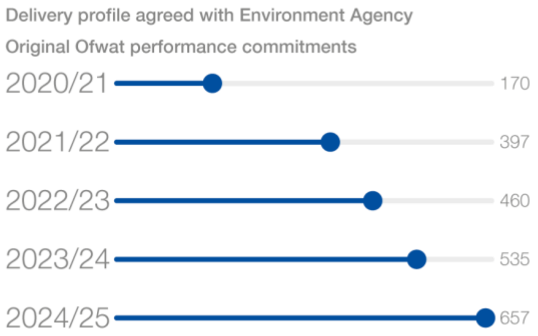
Once the treatment works was built, we started to dig into the ground to expose the pipe and assess what equipment and fittings were required to fix it. After digging down almost five meters to the pipe, damage was also found to a second pipe, adding to the repairs needed.

The location and landscape made the repair especially complex, with a high degree of environmental and personal risk, but we used a range of methods to mitigate those, including:

- Creating a pop-up sewage treatment works within two days to reduce the environmental impact.
- Re-routing the course of the beck to allow safer working.

It took five weeks to fully complete the repair of the pipes damaged and remove the temporary treatment works and other mitigations. The project was a truly one team effort, requiring input from a wide range of colleagues, from operations and project management, to support from our Customer and Communications teams, as well as Esh-Stantec.

Water Industry National Environment Programme (WINEP) - PR19NES_BES31



This is a bespoke PC which is reputational only until 2025, when a penalty could apply for underperformance. It's measured by the cumulative number of WINEP schemes completed each year across our operating areas (including both Northumbrian Water and Essex & Suffolk Water). It is limited to schemes that were confirmed on 1 April 2019 within WINEP and therefore had certain (green) status. Only sites signed off by the Environment Agency (EA) can count towards the measure.

The WINEP is a key part of the overall programme of measures to meet the requirements of the Environment Agency (EA)'s Water Industry Strategic Environmental Requirements (WISER) document. This includes objectives to meet Water Framework Directive (WFD) 'Good' status in our rivers by 2027 and prevent deterioration in status, together with other international regulatory drivers, including the Urban Wastewater Treatment (UWWT) and Habitats Directives. The EA sets an expectation in its WISER guidance that companies will deliver 100% of the environmental improvement schemes listed in WINEP.

We work very closely with our local EAs to make sure we have a common understanding of the specific requirements of our obligations, and to make sure the mitigation measures we implement will satisfy the WINEP's environmental objectives.

We have regular engagement with local EA representatives and provide information, as required to make sure we agree on key decisions throughout a scheme's delivery cycle. A governance process has been agreed, based on an EA guidance document, to avoid late decisions on any changes to the obligations and in developing the evidence requirements for EA sign off on completion. These include procedures for Change Protocol and for WINEP measures sign off.

In response to Covid-19, the EA acknowledged anticipated delays to scheme delivery due to the restrictions during lock-down on water company and laboratory work. Reflecting this and other developments, the EA has agreed a revised delivery profile for schemes up to 2025.

We are on track with delivery against the EA's revised profile, however for our PC, Ofwat requires us to report against the original expected delivery profile – which indicates that we are behind schedule.

Our targets for the first four years are reputational only, but if we should fail to complete the agreed total by 31 March 2025, we would pay a financial penalty in 2024/25.

The EA also reports WINEP delivery performance in its Environmental Performance Assessment (EPA). For this it uses its revised delivery profile and hence the EPA indicates that we are on track with WINEP delivery.

Delivery of Water Industry National Environment Programme requirements - PR19NES_NEP01

Progress
2021/22 met

This is a bespoke, reputational only PC that tracks our ability to meet or not meet our requirements for WINEP. The measure specifically tracks the completion of the required schemes in each year and Ofwat specifies performance for 2021/22 will be reported based on the latest WINEP programme on 31 March 2022, and the schemes delivered by this date.

Failing to complete the designated WINEP schemes for any given year would result in a 'not met' result.

All our forecasted WINEP deliverables (post accepted changes) for 2021/22, have been completed for sign off and there will be none recorded as 'not met.'

While this ODI measures for this five-year period, it is like the EPA measure, against which we have consistently delivered 100% of schemes since its introduction in 2011.

Case study – WADER

We are taking part in a multi-million pound project aimed at improving river water quality in Northumberland.

The LIFE Water and Disturbance Environmental Restoration (WADER) project aims to improve the ecological condition of more than 49,000 hectares of habitat and water quality for the species that depend on them.

Focused on the River Tweed catchment, Tweed Estuary and Northumberland Coast, the Natural England-led project sees our people working to help reduce nitrates entering the water from agriculture.

The Tweed catchment and estuary support internationally important over-wintering birds, such as the purple sandpiper and turnstone, as well as Arctic tern breeding colonies, and will help to control invasive species.

Other partners include the Environment Agency, Tweed Forum and Newcastle University.

Funding from partners and EU LIFE totalling £5.8M will see the five-year project deliver COP26 conservation pledges. EU LIFE is the European Union’s funding instrument for the environment and climate action.

Our involvement represents part of our Water Industry National Environment Programme (WINEP) work, complementing its own investment in reducing the impact on water quality from its own operations and assets.

Rob Cooper, one of our Catchment Advisers, said: “This beautiful part of Northumberland is so important for these species, and for those who love to visit and enjoy the surroundings that nurture them.

“It’s so important that we work with partners on projects like this, supporting other industries and protecting our environment.

“It’s vital that the interaction between land management and river water quality is looked at holistically, if we are to make the improvements, we, our customers and communities, want to see.

"Our efforts to support agriculture in reducing nitrate loss from fields into water courses and aquifers – water stored in underground rock - complements everything we are working to achieve in terms of our own operations.”

OUTCOME 12: We take care to protect and improve the environment in everything we do, leading by example

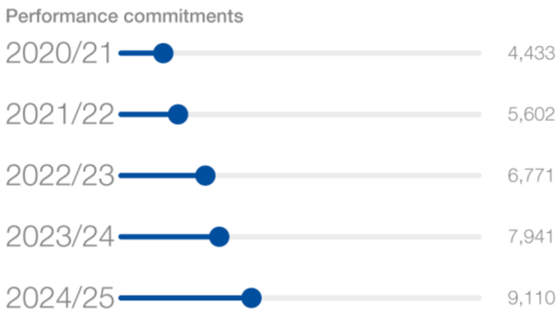
AMBITIOUS GOAL: Be leading in the sustainable use of natural resources, through achieving zero avoidable waste by 2025 and being carbon neutral by 2027

- Greenhouse gas emissions – bespoke
- Bioresources – bespoke

Our ambition is to be the first water company to achieve Net Zero carbon emission by 2027 and we continue to remain on track to achieve this.

Greenhouse gas emissions - PR19NES_BES21

The chart below shows the reduction in our emissions compared to 2019/20 baseline figures.



This is a bespoke PC that incentives us to reduce greenhouse gas emissions arising from our operational activities. The baseline was re-calculated for 2021/22 using the newest carbon accounting workbook.

This year we have reduced our operational emissions to just 22 thousand tonnes of CO_2e – down from 69 thousand tonnes in 2019/20.

We have achieved this by:

- Installing our first large scale solar array at Lumley Water Treatment Works, with six more large scale farms being built this year.
- Being the first and are the only water company to use 100% of our sewage sludge to create energy (or power from poo), and we've enhanced our activities in energy creation further with the implementation our second Gas to Grid plant at Bran Sands.
- Using biomethane purchased through the market to reduce our reliance on natural gas.

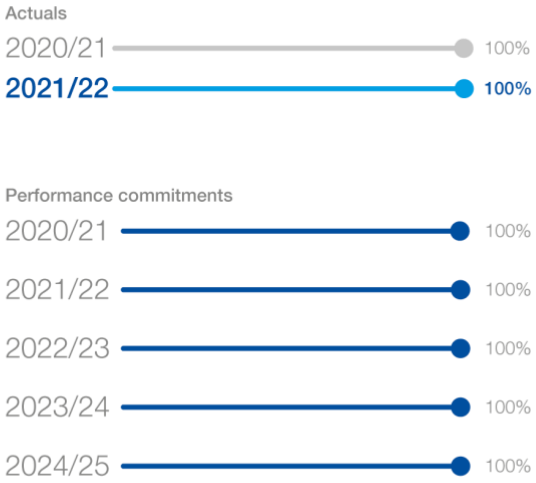
- Continuing to be efficient in our travel – avoiding unnecessary journeys and travelling by public transport.
- Leading the industry with our offshore wind Power Purchase Agreement (PPA), which was the first of its type in the UK. This 10-year deal has us sourcing approximately 30% of our electricity demand from the Race bank offshore wind farm.
- Powering all sites using renewable electricity.
- Using electric vehicles wherever possible.

We are on track to achieve zero avoidable waste by 2025. This will mean eliminating, re-using, or recycling 90% of our waste from operations, developing resource recovery technologies and working with partners to contribute to the circular economy in their regions.

Our figures have been subject to external third party assurance to confirm compliance with ISO14064, a copy of this report can be found **here**.

For our performance in this area, we are receiving a reward of £7.646M.

Bioresources - PR19NES_BES22



We have achieved this PC.

This bespoke PC is reputational only. The measure for bioresources performance is the percentage of sewage sludge treated and converted to biosolids at one of our two Advanced Anaerobic Digestion (AAD) sites and the percentage of biosolids that are beneficially recycled to land.

Our aim is to continue to treat 100% of our sewage sludge together with any imported organic material through the AAD process, and for 100% of the resultant biosolids to be safely and efficiently recycled to agricultural land. Our performance has remained at 100% achievement, therefore fully maintaining our committed performance which was first achieved as early as 2014/15. We are also the most efficient company in this area, and our industry leading strategy remains at the forefront of the sector and is a clear example of our continued aspirations to drive innovation and excellence.

Key enablers in delivering the strategy have been:

- Continued optimisation of two centralised AAD sludge treatment centres for all our bioresources and for trading in the bioresources market. We have regularly taken in bioresources to support other neighbouring companies on an ad hoc basis.
- Harnessing the opportunity of upgrading biogas to biomethane, and injection into the natural gas grid at both sites. We are the only company to have 100% of our energy-rich biogas used through this valuable route.
- A transport strategy based on a network of local dewatering sites at six strategic sludge handling centres and onward transport of sludge cake to the two AAD sludge treatment centres.
- Fertiliser biosolids products recycled safely and beneficially to agriculture under the Biosolids Assurance Scheme (BAS).

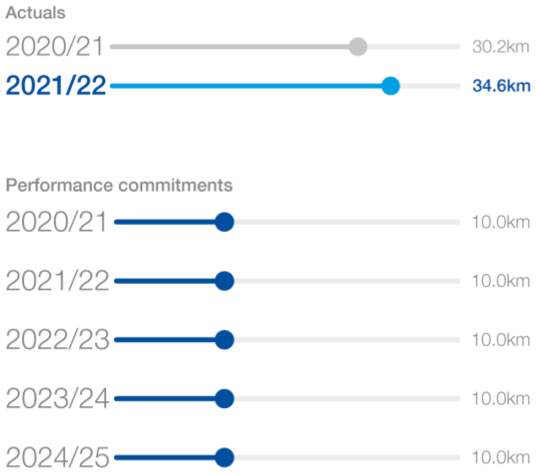
The EA's Satisfactory Sludge Use and Disposal metric, that forms part of their annual Environmental Performance Assessment (EPA), has been suspended since 2018 with shadow reporting only, however, it will be included for the 2022 calendar reporting year.

We confirm that all regulations and good practice codes have been complied to under the existing EPA metric. We continue to work closely with the EA in the development of the EA's National Sludge Strategy.

AMBITIOUS GOAL: Demonstrate leadership in catchment management to enhance natural capital and deliver net gain for biodiversity

- Water environment improvements – bespoke

Water environment improvements - PR19NES_BES20



We have achieved this PC.

This is a bespoke measure with this being the first full year of our programme following feasibility work in 2020/21.

Linking improvements to public access is an innovative partnership approach to investing in the environment. All water environments are in scope, including lakes and reservoirs, streams and rivers, canals, wetlands, coasts, and beaches. Improvements must cover at least two out of three aspects of access and recreational facilities, wildlife and biodiversity, and water quality, and must include elements above our regulatory obligations.

We have continued to outperform our PC of 10 km, achieving 34.6km of water environment improvements through delivery of 10 partnership projects across our NW and ESW operating areas.

We've worked closely with the Water Environment Governance Group (WEGG), an independent group made up of external expert stakeholders who are passionate about improving the environment, which helps steer our activity and approves and signs off projects against the ODI. This year we have launched a new funding scheme – bluespaces – to provide the platform for developing and delivering partnership projects to support this ODI.

We will receive a reward of £189,000 for our performance this year. We committed to reinvest at least 50% of any reward received above costs in new water environment projects. This year we have agreed an internal target to improve 248km of accessible water environments in our regions by 2025, which will see us investing close to £1M in above and beyond activities throughout 2020-25 to improve the water environment in partnership for the benefit of our customers. The level of investment annually in years three, four and five will be substantially above the 50% reward reinvestment level we committed to in developing this bespoke ODI. We have invested £171,139 in water environment improvements in year two, including in staff resources and investment in projects.

In 2022-23, we plan to achieve more than 66km of water environment improvements through at least 22 partnership bluespaces projects, investing £175,000 in our regions, and will be planning projects for years four and five. We will also be developing our ambition for the future through PR24, engaging with partners and stakeholders to plan for the water environment improvements which could be achieved in our regions from 2025-30.

The 2021/22 Governance Statement from Richard Powell OBE, Chair of the WEGG, demonstrates that we have addressed Ofwat's specific reporting and assurance requirements for this ODI. More detail can be found on **the Water Environment Governance Group pages on our website**.

Case study – Science, Water & Nature Conference

We invited an array of experts in ecology, agriculture, and engineering to discuss ways in which industries can work together to make sure our planet is protected and enhanced for generations to come.

The Science, Water and Nature Conference took place in Colchester, and the main message that emerged from the two-day get-together was that building new collaborations is key for a sustainable future.

The event began with a video message from His Royal Highness The Prince of Wales, a champion of sustainability for over 50 years, before delegates learned about the biodiversity challenges faced by the water industry, landowners, and economists.

Speakers included our Water Director, Keith Haslett, Ian Barker, from the Institute of Water, Matthew Morris, the Duchy of Cornwall's land manager, HM Treasury economist Lucy Watkinson and David Hill, Chairman of the Environment Bank.

A site visit to the spectacular Abberton Reservoir, which was enhanced in 2015, allowed attendees to see at first-hand a perfect example of what can be achieved through diverse partnerships.

Three workshops on the second day allowed attendees to break off into smaller groups and focus on future innovation, regulatory and legislative changes, and costings.

Heidi Mottram, our Chief Executive, said: "The water sector is totally dependent on a healthy and thriving natural world for its core purpose, so I believe we have a responsibility to be at the forefront of leading the charge to collaborate across sectors and put individual interests aside for the good of our shared natural environment and society.

"There couldn't be a better time to be having these conversations. With recent and upcoming changes to the legislative and regulatory outlook, there is huge opportunity to think and do things differently.

"We need to think at a landscape scale to deliver natural capital initiatives that deliver multiple benefits.

"Building new collaborations is essential for a sustainable future; and I am excited to see what new partnerships will be forged from this conference."

Catchment management

Catchment management covers the whole water cycle and this ambitious goal links across our water, wastewater, and conservation activities. We carry out catchment activities 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 work towards this ambitious goal in various ways:

- Integrated Catchment Planning
- Collaborative working at regional scale
- Catchment Based Approach (CaBA) and Catchment Partnerships
- Landscape partnerships
- Catchment and Nature-based solutions
- Water environment
- Water resources
- Conservation

During 2021/22 we delivered the following:

Field to Tap – farm advice and grants programme:

- We carried out advisory visits to 39 farms and had telephone conversations with a further 26 farmers.
- 23 grants were offered; £34,151 of grant funding was paid to farmers in our highest risk areas and a further £163,247.50 in grant funding has been agreed and will be paid when the farmer completes the work.
- Capital grants were for on-farm interventions such as clean and dirty water separation, muck storage, pesticide handling areas, cover crops, precision spraying equipment and soils assessments.
- In addition, we attended 16 events, organising/co-hosting seven of them and presenting at six, reaching a total audience of more than 830 people.

South Tyne and Blackwater Holistic Water Management Projects:

These two projects had a slow start due to Covid-19 lockdowns, but despite this we brought together stakeholders to form online advisory groups and successfully ran online applications for grants.

- On the South Tyne, the Advisory Group met three times and a window for grant applications was opened in June 2021. Four applications for funding were received, three for river restoration projects and one for a research ‘sediment fingerprinting’ project. All four applications met the project’s aims of delivering river restoration and/or biodiversity benefits and all four projects were approved, to a value of £120,223. Further grant applications are expected in 2022-23.

- On the Blackwater, the lapsed Blackwater Partnership has been reinstated and a window for grant applications opened in Autumn 2021. One application was received, and approved, for support towards a beaver enclosure and on-farm water storage to a value of £35,000. A further window for grant applications will open again in 2022 and further grant applications are expected.
- In all cases the grant applicants had secured additional funding, effectively leveraging our financial support into delivering larger projects to benefit the wider environment.

Peatland Restoration

In 2021/22 we provided £100,000 of funding to the Peatscapes Partnership to support peat restoration as part of the Tees-Swale project, addressing issues of colour in our raw water sources in the Tees catchment.

Berwick Nitrates Investigation and Field Trials

The Measures Specification for the WINEP Investigation into rising nitrates in our groundwater sources in the Berwick area required us to look at both catchment management interventions and the underlying hydrogeology to improve our knowledge of the nitrate issue and better understand the actions that could be taken to prevent further deterioration. It also included support for a PhD study which aimed to design a better monitoring system for soil nitrate concentration and leaching events in the Fell Sandstone catchment study area.

We engaged with farmers in the geographic catchment overlying the aquifer. Due to Covid-19 restrictions we were unable to establish a formal partnership as we had originally planned, but instead engaged 1-2-1 and we are now building a partnership following Covid restrictions being lifted.

In the Berwick area we have trialled a range of on farm interventions to help change behaviour around nutrient applications and to improve Nitrogen Use Efficiency (NUE) in the catchment, despite the challenges of face-to-face engagement during the pandemic. The trials work will support and encourage the uptake of these mitigation options as well as informing the design of a grant scheme for PR24 (2025-30) catchment interventions.

Case study – new partnership aims focus on the North East environment

We've teamed up with The Rivers Trust to form the North East Catchments Hub, a new approach to drive work that will inform investment to benefit water and the environment in the region.

This exciting new partnership will bring together local, regional, and national expertise in a regional Hub to develop improvements for water quality and the wider environment around the North East.

As well as playing an important part in the creation of our PR24 Business Plan for 2025-30, the Hub – an industry first – will create three new full-time job roles within three of the region's rivers Trusts (Tyne, Wear, and Tees) plus an extra part-time managerial role.

The Hub will form a focal point for our planning and partnership working to improve the environment through catchment and nature-based solutions. The combined expertise and best practice will create opportunities to unlock additional funding and consider alternative, sustainable ways to invest for environmental benefit.

It also builds on the success of the Northumbria Integrated Drainage Partnership, which brings us together with the Environment Agency and all 13 lead local flood authorities in the North East region, to reduce flood risk in partnership and in a way that promotes sustainable drainage.

Mike Madine, our Head of Wastewater Service Planning, Quality and Performance: "This partnership with The Rivers Trust, and the creation of the North East Catchments Hub, is an industry-leading approach to delivering improvements to watercourses and the wider environment. It will create opportunities to invest effectively and significantly enhance the things we can do in this area.

"Catchment planning is something that no individual organisation can substantially tackle alone, and that's recognised by both ourselves and The Rivers Trust. It's really exciting to be coming together like this, because we know we can do so much more by working in partnership."

Dr Ceri Gibson, CEO at Tyne Rivers Trust, which will be hosting a citizen science catchment monitoring demonstrator as part of the work, said: "Catchment Partnerships are an established and effective mechanism for identifying and delivering holistic improvements for rivers and land management. Everyone involved appreciates that working together to collect and share critical information will reap greater benefits. We are pleased to apply our local expertise and lived knowledge in working with natural processes to support Northumbrian Water in identifying and developing the most appropriate nature-based solutions throughout the region."

The partnership is initially for one year, but its remit includes developing a platform for growth into future years.

THEME SIX: BUILDING SUCCESSFUL ECONOMIES IN OUR REGIONS

OUTCOME 13: We are proud to support our communities by giving time and resources to their important causes

AMBITIOUS GOAL: Be the most socially responsible water company

Following the launch of our new Purpose statement in 2021, we have this year updated the Our Purpose report, published as part of our suite of corporate annual reports. In consultation with customers, we have identified the accreditations that demonstrate us living up to our Purpose statement, and the measures through which we will track our commitment to it.

We also launched a new community investment strategy in 2021 linked to our Purpose. This focuses our community investment activity in three specific areas that are tied to Ambitious Goals set in our Business Plan and supported by customers. These are in areas where we believe we should be the identified lead in our communities because they are central to our Purpose and where our leadership is crucial for success. These are:

- Ending Water Poverty.
- Water For Health.
- Protecting The Water Environment.

We seek to work towards these goals through a variety of different approaches:

- Financial contributions – such as through our Branch Out grants scheme, through which we invested £66,500, which helped our partners bring in additional funds in excess of £2M; or funding the SeaScapes Landscape Partnership project on the Durham coast through investment of £370,000 from 2021-2025.
- Volunteering – through our Just An Hour scheme, where 37% of our employees volunteered for 235 community and charitable causes, including local food banks, WaterAid and beach cleans; while our partnerships with Wildlife Trusts have leveraged £241,000.
- Educational impact – our Ripple Effect water efficiency programme has almost 4,000 engagements; and 9,586 took part in our Powered By Water health programme. More than 100 16- to 25-year-olds took part in a virtual assessment centre at our Innovation Festival – which is set to help them understand how to be successful when applying for jobs, assessing skills that are core to many career areas.
- Playing a leadership role – including Chief Executive, Heidi Mottram, speaking on behalf of the UK water sector at the Marrakech Partnership for Global Climate Action event at COP26; while our 'Give Back' sprints at our 2021 Innovation Festival enabled charities and community groups to tackle their own innovation challenges.

Overall, we have once again delivered on our long-standing practice of investing in our communities (more than 7% of our profits were reinvested).

We have again achieved significant external accreditation for our responsible business practices. This includes being named on the Ethisphere Institute's World's Most Ethical Companies list for the eleventh time in 12 years, and again being the only water company featured. We were also the first water company to achieve the Good Business Charter accreditation, backed by both the CBI and TUC. Business in the Community's Responsible Business Tracker cited us as top performers for nature stewardship and digital transformation, while we were also featured as a good practice example in BiTC's recent **Embedding Purpose: Lessons from Business** report.

Beyond this, our good practice in employment, environment, supply chain and other areas. has been recognised in several further ways:

- ISO accreditations for Environmental Management, Asset Management and Emissions Reporting.
- Good Business Charter.
- BiTC Responsible Business Tracker.
- Awarded Advanced Good Work Pledge by North of Tyne Combined Authority.
- Living Wage employer.

Case study – Drop Swap

Our new charity cash boost initiative has seen hundreds of thousands of e-drops donated by customers to help local charitable causes in both our Northumbrian Water (NW) and Essex & Suffolk Water (ESW) operating areas.

More than 370,000 e-drops were donated by NW customers and more than 211,000 by ESW customers to the nominated charitable causes over the last two month voting period through using our free app.

Drop Swap sees tens of thousands of pounds being donated every year with customers deciding where the funding goes.

We're helping organisations such as Feeding Families, Oasis Community Housing and Little Sprouts in the North East and CYP Yellow Door, Southend Foodbank and Waveney Foodbank in Essex & Suffolk. All the good causes receive a cash donation and are offered support through our employee volunteering programme, Just an Hour.

Louise Hunter, our Corporate Affairs Director, said: "We already support our local communities in many ways – gifting time and expertise via our amazing employee volunteers to donating cash and equipment to community and environmental projects.

"The Drop Swap initiative is a fantastic addition to the great support we give our communities and it will help the charitable causes that matter the most to our customers. The idea originally came from a session with our customers at our 2019 Innovation Festival and so I'm especially pleased to see it brought to life as a great example of how our customers can shape how we deliver our services.

"We want to help as many deserving causes as possible, through this funding channel, across our local communities of the North East, Essex, Suffolk and the London Boroughs. We're urging customers to download and start using our free app to help the causes that are close in their hearts."

The app is available for customers to use around the clock to access services, such as updating water meter readings and making account payments. Customers will be rewarded with 'e-drops' to vote for their local charity of choice when using the app and can nominate other charitable causes to benefit from future support.

Alex Hawkins, Charity Manager at CYP Yellow Door said: "We're grateful to have been involved in Essex and Suffolk Water's Drop Swap initiative, where we were nominated for some community funding. It's a great incentive, and we're over the moon with the number of customer votes we received for our cause. Thanks to everyone who voted, and the donation from Essex & Suffolk Water will help support the fantastic work we do in the community."

Juliet Sanders, CEO of Feeding Families said: “We’re grateful to have been involved in Northumbrian Water’s Drop Swap initiative, where we were nominated for some community funding.

“It’s a great incentive and we’re thrilled with the number of customer votes we received for our cause. Thanks to everyone who voted and the donation from Northumbrian Water will help support the fantastic work we do in the community. This year it is needed more than ever and so it couldn't come at a better time.”

We’re delighted to be working with Essex Community Foundation and County Durham Community Foundation, helping to deliver this new initiative across the whole of its operating area. This extends a longstanding partnership through which thousands of pounds worth of project grant funding has been delivered in the area.

Sharing their feedback about DropSwap our customers have said:

“A brilliant way to help water services and accounts to run smoothly and help good causes as a result.”

“A great idea and very good that it has been created by a water company.”

"I think Drop Swap is an amazing thing to do -giving back and helping charities is such a lovely thing to do so I absolutely love it."

Case study – Ground breaking ethnicity programme

We have been part of a ground-breaking ethnicity programme, to help attract a more diverse workforce.

By participated in the Workforce Integration Network (WIN) Design Labs programme, launched by the Equal Group and the Greater London Authority, we aim to tackle the under representation of the Black, Asian and minority ethnics (BAME) community, particularly young black men, within the infrastructure and construction sectors.

Interactive sessions and workshops were designed to help the eleven companies involved engage with a more diverse talent pool, with a targeted approach towards recruitment.

As part of the programme, we’ve developed a detailed action plan. Some of our commitments include:

- Working with diverse recruiters to increase the representation of the BAME community within the water company and providing diverse interview panels.
- Diversifying the supply chain by refreshing the responsible procurement strategy and carrying out sustainable procurement assessments.
- Upgrading our HR systems to allow people to self-disclose or update their ethnicity / religion / sexual orientation at all recruitment stages from interview to even years into the role, to understand how sustainable recruitment is for diversity, inclusion and equity.

We also plan to launch a four-year diversity and inclusion strategy, which will see employee network support groups established and a series of online learning events delivered.

Our Diversity, Inclusion and Wellbeing Manager, Michael Nicholas, said: “Essex and Suffolk Water is committed to being reflective of the communities we serve but currently we have room for improvement in this area.

"Taking part in this invaluable project and developing an action plan is a positive step forward to creating a diverse workforce and it springboards our commitment to being the national leader on diversity and inclusion within our industry."

A spokesperson at the Equal Group, said: "We are delighted Essex and Suffolk Water are committed to increasing the representation of young Black men in their organisation through the publication of their action plan.

"Essex and Suffolk Water have been such active participants in the GLA WIN Design Lab programme and we look forward to seeing them, and continuing to support them, in creating a more diverse workforce."

OUTCOME 14: We work in partnership with companies and organisations to achieve the goals that are most important to our customers

AMBITIOUS GOAL: Spend at least 60p in every £1 with suppliers in our regions

We have achieved this PC.

As one the largest businesses in the regions where we operate, and in keeping with our commitment to our communities, we believe it is important to maximise the positive impact of our spending. We therefore prioritise working with a supply chain that upholds our social, economic, and environmental standards and shares our vision of continuous improvement.

After making strong and sustained progress since 2017/18 we are delighted to have reached this target over the past year, with local spending in 2021 at 60.34%, up from 58% in 2020.

Several actions over the past year have helped to get us to this level:

- Training and support delivered around the business through our 'spend wisely' campaigns, making sure teams are taking into consideration local sourcing when getting quotes for work.
- Contributions at events to share insights and access to opportunities with local suppliers. These include taking part in a programme to help County Durham businesses get ready to win construction work, and an Innovate UK-funded event delivered by RTC North helping businesses who wish to break into or grow within water sector supply chains.
- We have established a great network with other North East organisations through the County Durham Pound group who have similar same goals and challenges to us regarding local spend and social value. This will assist us with spend analysis to show leakage outside of the local area and where new opportunities lie.

To calculate our local procurement spending, we established a baseline by defining local procurement and mapping suppliers to local and non-local categories. We define 'local spend' as spending with suppliers with a postcode that falls within its operating areas. This is based on the 'pay site' defined on the supplier's invoices.

In calculating local procurement expenditure, we include both capex and opex, but exclude certain spend categories, such as power, banking payments and inter-company payments. Excluding these items removes approximately 20% of total expenditure.

For smaller companies, the invoice location is generally near where the company is based and where their employees work and live. However, for companies operating over larger geographical areas, using invoice postcodes is less effective. Examples include temporary staffing contractors and capital framework partners who have a head office out of our regions but source our requirements from our local areas. To address this, a manual adjustment is made to better reflect where their employees work and live.

In the last year we updated our Responsible Procurement Strategy, through which we have developed the 'Impact Initiative 7'. This sets out a series of key activities within seven key initiatives, which we believe will make the biggest positive difference when sourcing goods and services.

As part of this, to enable us to achieve the strategy's outcome to protect relationships with local suppliers and continue to create awareness and opportunities, we have identified four key activities:

- Maintain 60p in every £1 of supply chain spend with local businesses in our operating regions in the North East, Essex and Suffolk.
- Build and maintain external relationships with local organisations to offer business mentoring and provide meet the buyer events.
- Provide a pipeline of tendering opportunities on our website and use social media platforms such as LinkedIn to alert businesses of upcoming opportunities.
- Membership of the County Durham Pound – a collaborative group of local partners who seek to work together to increase collective local spending, create business Opportunities for local SMEs, VCSEs and other local businesses.

Our focus now will be on at least maintaining this level until 2025 and beyond and considering how we can do more to make sure the economic benefit of this spending is as big as possible.

REGULATORY ACCOUNTING STATEMENTS

AND

ADDITIONAL REGULATORY INFORMATION

DIRECTORS' RESPONSIBILITIES AND DECLARATIONS
for the year ended 31 March 2022

CONDITION F – REGULATORY ACCOUNTING STATEMENTS

The Directors are responsible under Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991 for:

- ensuring that appropriate accounting records are maintained by the Appointee which are consistent with the Regulatory Accounting Guidelines published by Ofwat;
- preparing a set of regulatory accounting statements each financial year in accordance with the Regulatory Accounting Guidelines; and
- complying with all other requirements set out in the Regulatory Accounting Guidelines.

RISK AND COMPLIANCE STATEMENT

The Board confirms that:

- it considers the Company has full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
- it has satisfied itself that the Company has sufficient processes and internal systems of control to fully meet its obligations; and
- the Company has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

The Board notes that the Company is complying fully with the Ofwat and EA investigations into environmental permit compliance in relation to flow to full treatment at wastewater treatment works, and was disappointed to identify potential non-compliance at four smaller sites. The Company has developed and is implementing a clear action plan to address these sites and any other issues identified.

DISCLOSURE OF INFORMATION TO AUDITORS

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.

CONDITION P (RING-FENCING CERTIFICATE)

The Directors certify that, in their opinion:

- the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, its Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment);
- the Appointee will, for at least the next 12 months, have available to it management resources and systems of planning and internal control which are sufficient to enable it to carry out its Regulated Activities;
- the Appointee has available to it sufficient rights and resources, other than financial resources, to enable a special administrator to manage the affairs, business and property of the Appointee, should a special administration order be made; and
- all contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

In providing this certificate, the Directors have considered the following main factors:

Financial resources and facilities:

- 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 2022;
- 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, of which £285m was undrawn at 31 March 2022;
- the Directors assessment of that the Company should be able to manage its business risks, continue to operate and meet its liabilities as they fall due over the eight years to March 2030, reported in the viability statement; and
- the updated Treasury Strategy which the Board approved in April 2022.

The Directors are conscious of the need to refinance £350m of Eurobonds in February 2023 (see note 15). The Board has approved a Treasury Strategy which sets out the approach to be followed to meet the Company's financing needs for the next four to six years.

The implementation of the strategy is underway and the Company has held initial meetings with a number of its relationship banks to consider options to deliver the strategy. The Company has also commenced the introduction a Medium Term Note Programme. This will offer a range of debt instruments and allow the Company to raise smaller amounts to suit borrowing requirements and provide the ability to react to market pricing and investor requests quickly.

Management resources

- the balance and effective operation of the Board, on which Independent Non-executive Directors (INED)are the largest group, as described in the Corporate Governance report in our Annual Report and Financial Statements;
- the work of the Nomination Committee for the appointment of senior positions;
- the new INEDs participated in the comprehensive on-boarding and induction programme for the five newly appointed INEDs, covering all key aspects of the Company's operations, responsibilities and financial structure and involving a significant number of virtual meetings and "teach-ins" with senior colleagues and visits to key sites;
- the experience and broad-ranging skills and experience of the Executive Leadership Team;
- the engagement of staff, demonstrated by the 87% response rate to our annual Great Place to Work survey, which listed the Company as the 35th Best Workplace in the UK (Super Large category) and a Great Place to Work Certified Employer;
- the development and launch of a new of our Inclusion and Diversity Strategy called TIDE (Together for Inclusion, Diversity and Equity).

Systems of planning and internal control

- the Company's formal governance and risk management arrangements which are monitored by the Audit Committee, Risk & Compliance sub-committee and Board.
- the work of the Board and its Committees to monitor the risk and control systems throughout the year, including conducting a robust assessment of principal risks and an annual review of the effectiveness of the Company's risk management and internal control systems, oversight of the work carried out by external auditor, internal audit and other assurance providers, and monitoring compliance with procedures to prevent bribery and receiving reports on any whistleblowing allegations;
- the monitoring and review throughout the year of the principal risks and uncertainties facing the business by the Risk & Compliance Sub-committee;
- the Company's robust business continuity arrangements.

Rights and resources other than financial resources

- the Company's business model comprising its Purpose, Vision, Strategic Themes, Values and Reputation and how these are delivered, as set out in Our Purpose report;
- the robust IT infrastructure and investment in recent years in major technology transformation programmes for billing and customer contact and asset management and field working;
- our asset management governance structure, certified under ISO 55001 and the development of our service planning framework.

Contracting

- the approval by the Board of all significant contracts;
- disclosure of all transactions with associated companies, of which no new arrangements were entered into during the year;
- an internal audit of compliance with RAG 5.07 Guideline for transfer pricing, which confirmed that there were no areas of significant non-compliance but identified a small number of areas for improvement in disclosure which have been reflected in this APR; and
- the settlement of a legacy intercompany loan arrangement, after 31 March 2021; and

Material issues or circumstances

No other material issues or circumstances were considered.

Deloitte LLP have carried out assurance on the ring-fencing certificate, in accordance with the Company's Instrument of Appointment. The assurance was in the form of agreed upon procedures, and the report can be found [on our website].

CONDITION P26 (CREDIT RATING)

The Directors confirm that throughout 2021/22 the Appointee has ensured that it, and an Associated Company as issuer of debt on its behalf, has maintained an issuer credit rating which is an investment grade rating.

VIABILITY STATEMENT

When considering long-term viability the Directors note that, in their opinion, the PR19 FD and the amendments made by the CMA in March 2021 still result in a settlement which is extremely challenging. The level of asymmetric risk in the settlement package is significant and not matched by the level of return and allowed costs are insufficient for an efficient company like NWL to deliver the stretching service levels set out in the FD for its customers. This also results in lower financial headroom available for the 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 pressure on projected credit ratings in the next three years, particularly higher operating and capital costs. The longer-term view beyond three 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, as well as setting stretching but achievable targets and allowing sufficient totex to enable an efficient company to meet its obligations and service level targets.

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 eight 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;
- the Board's five year plan, extended to eight years for the purposes of this assessment and updated to reflect current macro-economic circumstances;
- 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 committed bank facility as back up liquidity, of which £283m was undrawn, maturing in December 2025 with the intention of extending until 2030 in due course;
- the Board Treasury Strategy, approved in April 2022, which sets out a framework for raising c.£1.3bn of funding over the next four years to meet borrowing requirements;
- the key financial ratios over the planning horizon of the Company's financial forecast to March 2027 and extended forecast to March 2030, as reflected in investment grade credit ratings;
- the Board's flexible dividend policy;
- the principal risks and uncertainties facing the Company and the mitigating controls, as described in the the NWL Annual Report and Financial Statements for the year ended 31 March 2022, which are monitored by the Audit Committee, R&CSC and Board; and
- the work of the Audit Committee, on behalf of the Board, to review and approve the baseline plan and stress test scenarios and to review the outputs of the stress testing in the context of the Company's financial resilience.

To support the Directors in their assessment of viability, the Audit Committee carried out a thorough review process. This included discussing and approving appropriate updates to the Board approved plan to reflect latest economic projections, in particular inflation assumptions and discussing an appropriate forward testing period. This concluded that the base forward plan should be updated to reflect the latest inflation forecast published by the Bank Of England's Monetary Policy Committee in May 2022.

The Audit Committee also discussed and approved the range and severity of stress test scenarios to be applied to the baseline plan, taking account of the principal risks of the business. The stress tests are set out in detail below. The Audit Committee then reviewed the detailed outcomes of the stress testing and the potential impact on the Company's key financial ratios and discussed appropriate mitigating actions which could be taken if the need arose. Following this process, the Audit Committee recommended approval of the viability statement to the Board.

The Directors have chosen a period of eight 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 the current price control period 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 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 table below sets out the stress tests performed, the severity of the adverse scenarios applied, the outcome in the context of the key financial ratios and potential mitigating actions where required.

<table>
<tr><th>Ref</th><th>Stress Test</th><th>Scenarios</th><th>Outcome and Mitigation</th></tr>
<tr><td>1</td><td>Lower inflation, reducing allowed revenue and RCV growth</td><td>Up to 1% per annum lower than base forecast</td><td>No material impact on ratios</td></tr>
<tr><td>2</td><td>Increased borrowing costs for raising new and refinanced debt</td><td>Up to 5% higher than base forecast</td><td>No material impact on ratios in AMP7. Sustained increase into AMP8 should be reflected in PR24 cost of debt</td></tr>
<tr><td>3</td><td>Further increases in corporation tax rate beyond planned increase to 25% in April 2023</td><td>Up to 2% additional tax rate</td><td>No material impact on ratios</td></tr>
<tr><td>4</td><td>Defined benefit pension scheme returns to deficit position and higher deficit repair contributions</td><td>Deficit up to £100m and increased deficit repair payments up to £10m pa</td><td>No material impact on ratios.</td></tr>
<tr><td>5</td><td>Higher operating costs, including energy and chemical prices</td><td>Up to 15% overspend against FD</td><td rowspan="3">Significant cost increases would impact on credit ratios over the period. Mitigation is strong management of costs and delivery of efficiencies through innovation, without impacting on service levels to customers. Application of the Board's flexible dividend policy</td></tr>
<tr><td>6</td><td>Higher capital costs, reflecting input cost pressures</td><td>Up to 10% overspend against FD</td></tr>
<tr><td>7</td><td>Higher totex costs</td><td>Combination of scenarios 5 and 6</td></tr>
<tr><td>8</td><td>Impact of incident crystallising one of the principal risks identified in the Annual Report & Financial Statements</td><td>One off impact of up to £50m</td><td>One -off impact. No material impact on ratios over longer term</td></tr>
<tr><td>9</td><td>Regulatory penalty for poor performance or non-compliance with obligations</td><td>One off penalty of up to 10% of regulated revenue</td><td>One -off impact. No material impact on ratios over longer term</td></tr>
<tr><td>10</td><td>Sustained deterioration in household revenue collection due to cost of living pressures</td><td>Up to 2% pa</td><td>No material impact on ratios</td></tr>
<tr><td>11</td><td>Net Outcome Delivery Incentive penalty</td><td>Up to £15m pa</td><td>No material impact on ratios</td></tr>
<tr><td>12</td><td>Adverse outcome of PR24 compared to base plan assumptions</td><td>Lower rate of return of up to 0.5% below base plan assumption</td><td>No impact in AMP7. To be assessed through PR24 process.</td></tr>
</table>

Ref	Stress Test	Scenarios	Outcome and Mitigation
13	Combined impact of adverse economic movements	Scenarios 1, 2 and 3	No material impact on ratios in AMP7. Sustained increase into AMP8 should be reflected in PR24 cost of debt
14	Combined impact of external factors	Scenarios 4 and 12	No impact in AMP7. To be assessed through PR24 process.

The baseline plan is compatible with retaining the Company's investment grade credit ratings. None of the stress test scenarios undermined the Company's long term financial resilience. However, certain stress test scenarios indicated a risk of a credit rating downgrade, specifically higher operating and capital costs and a substantial increase in the cost of raising new finance into AMP8. However, in the Board's opinion, even the most severe scenarios were not indicative of falling below BBB/Baa2 rating.

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;
- flexible and efficient financing of new debt;
- strong management of costs and delivering efficiencies through innovation, taking care not to impact on service levels to customers; 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.

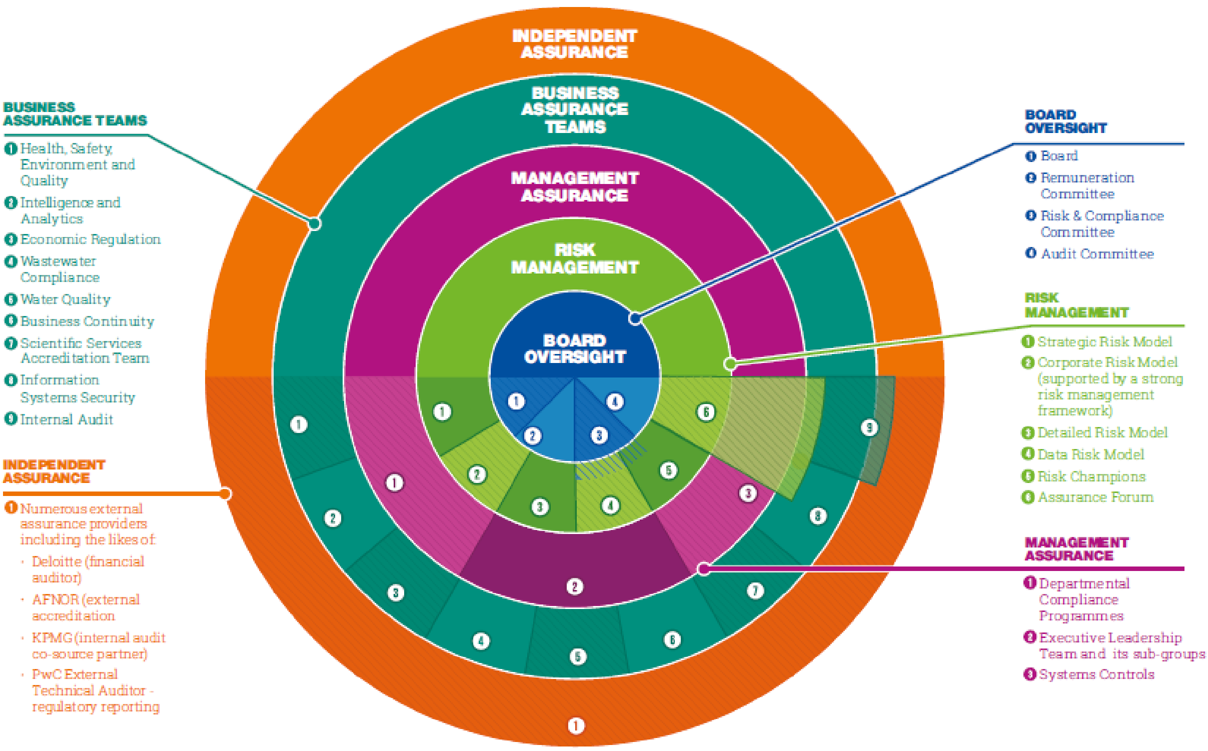
BOARD STATEMENT ON ACCURACY AND COMPLETENESS OF DATA AND INFORMATION

In the opinion of the Board, based on the governance and assurance arrangements in place, the data and information contained in this Annual Performance Report and provided to Ofwat during the year is complete and has a high degree of accuracy. Our Data Assurance Summary provides a detailed review of the assurance work carried out in the year and the findings of our assurance providers, upon which this opinion is based.

Governance Arrangements & Assurance Framework

The Board is committed to providing regulatory data and information that is accurate, clear and transparent in order to maintain the trust of our customers and stakeholders. The Board takes ownership of the arrangements for governance and assurance of regulatory submissions and reporting. This is monitored and controlled through the Board's Audit Committee and Risk & Compliance Sub-committee, which report regularly to the Board.

The Board has put in place a comprehensive assurance framework, shown in the diagram below. This has Board oversight at its core, supported by a risk management framework and multiple layers of internal and external assurance.



The Risk & Compliance Sub-committee, on behalf of the Board, carried out its 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.

Activities in the Year

We published our annual Assurance Plan in March 2022, following consultation with customers and stakeholders, which set out how we intend to meet our obligations and the commitments we made to customers and stakeholders in our Business Plan 2020-25 and how we provide information of appropriate quality.

In developing this Assurance Plan we thoroughly reviewed our risks, strengths and weaknesses against the stretching commitments in our Business Plan, identifying which areas required increased focus to ensure quality of reporting.

The Board, through the work of its Audit Committee, has overseen a plan to improve regulatory data through the year. This plan was designed to address areas of risk identified in reports from our assurance providers for the 2020/21 APR, as well as areas where the source of data has changed during the year and where there are new reporting requirements. This included:

- conflicting data being received from field activities (eg notes and job types not matching) which necessitated significant manual review and correction;
- asset information held outside of corporate systems in spreadsheet form;
- improving accuracy in the use of complex spreadsheets; and
- streamlining business process for reporting bioresources data.

As part of the approval process for this APR, the Audit Committee received assurance reports from the Internal Audit manager, the external technical assurer, PricewaterhouseCoopers LLP, and the financial auditor, Deloitte LLP. We have also published a Data Assurance Summary as part of our suite of annual reporting. This describes the assurance activities carried out throughout the year and for data provided in the APR, and reports any key findings of our assurance providers. This confirms there were no significant issues to report.

Conclusion

The Board is satisfied that the governance and assurance arrangements it has put in place are comprehensive and robust and have operated effectively throughout the year. On this basis, the Board is confident that the data reported has a high degree of accuracy. However, no assurance process can give an absolute guarantee of total accuracy, especially given the extremely large volume of data in the APR and the fact that some of the reported information is dependent on expert judgement and assumptions, for example accounting separation data.

STATEMENT ON RUSSIA SANCTIONS REGULATIONS

At Northumbrian Water Limited we are committed to ensuring compliance with all applicable legislation in force from time to time both within our own business and within our extensive supply chain. As such, we have set out below the steps we have taken, and will continue to take, in relation to ensuring compliance with 'The Russia (Sanctions) (EU Exit) Regulations 2019 (as amended)' (the "Regulations").

- Having conducted a review of our Tier 1 supply chain, we consider that there is a very low risk of non-compliance with the Regulations within Tier 1 of our supply chain.
- We have contacted all strategic Tier 1 chemical suppliers asking them to confirm any connection to Russia, specifically with regards to any Russian entities or individuals subject to sanctions under the Regulations. Only one such supplier informed us that they had an operational site within Russia, but they confirmed to us that the site had now been shut down.
- Our standard contracts/terms and conditions include a contractual obligation on all suppliers to ensure that they comply with all applicable statutes, regulations, byelaws and other legal requirements in force from time to time.
- We will continue to monitor our supply chain and our investors (both debt and equity, including ultimate controllers of the regulated company) to ensure their continued compliance with the Regulations.
- In addition, we do not engage with any known restricted or sanctioned entities in any form of financial or transactional services in relation to our debt portfolio and in relation to the applicable laws and regulations, including but not limited to the Regulations, that prohibit such activity.
- Our commercial banking and financing relations consist only of banking groups governed by the UK Financial Regulation Authorities and, alongside their strict compliance requirements, we would further provide support and assistance for any of our direct or indirect transactions that give rise to any knowledge or suspicions of any breaches of the Regulations or of any other applicable financial sanctions.
- We confirm that we have no transactions with any of the Russian banks subject to current sanctions under the Regulations or banned from SWIFT messaging.

By order of the Board

Andrew J Hunter	Heidi Mottram	Alan Bryce
Chairman	CEO	Senior Independent Non-Executive Director

Dominic Chan
Non-Executive Director

H L Kam
Non-Executive Director

Duncan Macrae
Non-Executive Director

Jacquie McGlade
Independent Non-Executive Director

Bridget Rosewell
Independent Non-Executive Director

Richard Sexton
Independent Non-Executive Director

Peter Vicary-Smith
Independent Non-Executive Director

15 July 2022

REGULATORY ACCOUNTING POLICIES AND DISCLOSURES
for the year ended 31 March 2022

(a) Regulatory Accounts - Basis of Accounting

The Regulatory Accounting Statements, on **pages 125 to 177** of the APR, have been prepared in accordance with the Regulatory Accounting Guidelines (RAGs) issued by Ofwat. They have been prepared on a consistent basis to the Company's Financial Statements, with the following exceptions:

- income relating to energy generation and meter reading, which is recorded as revenue in the statutory accounts, has been recorded as negative operating expenditure;
- rental income and amortisation of deferred capital income, which are recorded as revenue in the statutory accounts, have been recorded as other income below operating profit;
- profit on disposal of fixed assets, which is recorded as operating costs in the statutory accounts, has been recorded as other operating income;
- borrowing costs that are directly attributable to the acquisition or construction of an asset, which are capitalised in the statutory accounts, are charged to the income statement; and
- the prior year provision for innovation fund costs in the Statutory Financial Statements has been reversed in the Regulatory Accounting Statements, in accordance with Ofwat guidance in IN 22/01 Expectations for monopoly company annual performance reporting 2021-22.

The information reported in the Regulatory Accounting Statements relates to NWL's Appointed business only, except where stated. The Appointed business comprises Regulated Activities, defined in Condition A of the Licence to be 'functions of' and the 'duties imposed on' a water and sewerage undertaker by the Water Industry Act 1991. Such duties are consequently those necessary for the Company to fulfil its duty as a water and sewerage undertaker.

The accounts have been prepared on a going concern basis which assumes that the Company will have adequate funding to meet its liabilities as they fall due in the foreseeable future.

(b) Revenue recognition

The revenue recognition policy is the same in the regulatory and statutory accounts, other than the exceptions related to income from energy generation, meter reading, rental income and deferred capital income, as explained above.

RAG 1.09 requires companies to recognise all revenue billed to properties which receive a service, other than if confirmed as void, and to assume that it is probable that this will be collected, disapplying IFRS 15 in this respect. NWL complies with this requirement.

Revenue from water and sewerage charges billed to customers is recognised pro-rata over the period to which it related. For consumption by measured customers which has not yet been billed, revenue is estimated and accrued using a defined methodology based upon historical usage and the relevant tariff per customer.

Invoices raised or payments received where the service has not been provided are not recognised in revenue in the year but are treated as receipts in advance.

Additional charges added to a customer's account as a result of debt recovery activity, such as court costs or solicitors' fees, are recognised as negative operating costs when payment is received in both the statutory and regulatory accounts. They are not recognised in revenue.

Charges for water and sewerage services remain due in full whilst a property contains furnishings and fittings or when a property is unfurnished and water is being used for any purpose including refurbishment. If the Company has turned off the supply of water at the mains to a property at a customer's request, then water supply charges are not payable.

If the supply of water is turned off and the property is unfurnished the property is considered unoccupied and charges are not payable. If, however, the supply of water is turned off and the property remains furnished it is considered ready for occupation and in this case sewerage charges in respect of the drainage of surface water and contribution to highway drainage continue to be payable.

If a property is recorded as empty in the billing system an empty property process is followed. The purpose of this process is to verify whether the property is occupied or not and, if occupied, to identify the chargeable person and raise a bill. No bills are raised in the name of 'the occupier'.

The empty property process comprises a number of steps including an initial letter asking the occupier to either contact the Company or return a completed registration form, a check of the property record against Land Registry information and visits to the property by Company representatives. If these steps confirm that a property appears to be empty, then the supply may be turned off.

New properties are charged from the date a meter is installed, if consumption is being recorded on the meter. If the property is unoccupied but water is being registered, the developer will be charged. Once the developer is no longer responsible for a property, if no new occupier has been identified the property will be treated as unoccupied and the empty property process followed, as outlined above.

A retrospective review has confirmed that the measured household income accrual at 31 March 2021 of £57.9m was marginally higher than the amounts subsequently billed to customers of £55.8m.

(c) Bad debt policy

The policy for bad and doubtful debts is applied consistently between the statutory and regulatory accounts.

(i) Bad debt write offs

Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect.

Situations where this may arise and where debt may be written off are as follows:

- where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted;

- where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution;
- where the customer does not have any assets or has insufficient assets on which to levy execution;
- where the value of the debt makes it uneconomic to pursue;
- where county court proceedings and attempts to recover the debt by debt collection agencies have proved unsuccessful; and
- where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

For debt to be written off there must be a legitimate charge against the debtor. If it is considered that part or all of the debt is incorrect or unsubstantiated, then such elements are dealt with through the issue of a credit note.

(ii) Bad debt provisioning

The Company's detailed bad and doubtful debts provision policy has remained unchanged during the year and has been consistently applied in the current and prior periods. The bad debt provision is charged to operating costs to reflect the Company's assessment of the risk of non recoverability of debtors. It is calculated by applying expected recovery rates to debts outstanding at the end of the accounting period. These recovery rates take into account the age of the debt, payment history and type of debt.

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. Actual amounts recovered may differ from the estimated levels of recovery which could impact on operating results. A comparison of the provision against historical collection rates is carried out at the end of each year to validate and, if necessary, adjust the level of provision.

An assessment of the potential impact of Covid-19 on the economic circumstances of our household customers was made at 31 March 2020 and a provision of £6.5m created, which was retained at 31 March 2021. Cash collection has remained in line with expectations during the pandemic, therefore management has concluded that this provision is no longer required and it has been released at 31 March 2022.

Household customers are facing significant cost of living pressures caused by high energy costs and the consequent inflationary pressures on food, fuel and other household costs. An assessment has been made of the risk to collection, which has considered the increase in debt experienced during the financial crisis in 2008, and an additional provision of £2m has been created.

The provision has reduced from £111m at 31 March 2021 to £92.4m at 31 March 2022, reflecting cash collection, write off of £19.6m of debt considered to be unrecoverable and the release of the Covid-19 provision.

(d) Capitalisation policy

The policy for the capitalisation of costs as items of property, plant and equipment and intangible assets is applied consistently between the statutory and regulatory accounts, in accordance with IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets.

The application of this policy is summarised below. Further detail is provided in the accounting separation methodology statement published on our websites.

The cost of construction or purchase of new or replacement infrastructure and non-infrastructure assets is capitalised. Cost includes any costs directly attributable to bringing the asset into condition for use in the business, including directly attributable overhead costs but excluding general overhead costs. The costs of infrastructure and non-infrastructure assets are depreciated over their useful economic lives.

On the infrastructure network, capital replacement of assets includes any renewal of a full pipe length of main or sewer and replacement of ancillaries such as stop taps, valves, meter chambers and manhole covers.

Subsequent maintenance expenditure is treated as an operating cost unless it provides an enhancement of economic benefits in excess of the expected standard of performance such as an extension in the estimated useful life or an increase in capacity, in which case it is capitalised. Examples of maintenance costs charged as operating costs include pipe and tank cleaning, inspections, surveys and zonal studies.

The Company has reviewed its Intangible Assets following publication of IFRIC guidance to IAS 38 Intangible Assets regarding ‘Customer’s Right to Receive Access to the Supplier’s Software Hosted on the Cloud’ and ‘Configuration or Customisation Costs in a Cloud Computing Arrangement’. As a result, costs of configuring and implementing ‘software-as-a-service’ systems, where the Company does not control the asset, are now expensed to the income statement in the year in which they are incurred. These costs were previously capitalised and classified as intangible assets. This change has been applied retrospectively. The impact of the change is set out in note 27 of the NWL Annual Report and Financial Statements for the year ended 31 March 2022.

(e) Accounting separation policy

Cost allocations have been prepared in accordance with RAG 2.08 and RAG 4.10 for the definitions for the regulatory accounting tables. All costs are recorded in the accounting records by cost centre. Cost centres are defined either as a direct department, comprising operational and customer functions, or a support department. Direct departments are mostly directly allocated to service activities based on the nature of the function, although some costs require apportionment on an appropriate basis. Support departments are apportioned across the price controls either based upon a specific analysis of the costs or by apportionment by an appropriate cost driver. Once allocated to the appropriate price control the costs are then allocated to service activities pro-rata to full time equivalent staff numbers of the direct departments.

Fixed assets directly involved in the activities within each business unit are recorded against that business unit using direct allocation per the location or asset type. Where an asset is utilised in more than one business unit, the asset is allocated to the business unit of principal use and costs are recharged to other different business units on the same basis used to allocate operating expenditure.

Further detail is provided in the accounting separation methodology statement published on our website.

(f) Statement of Directors' remuneration and standards of performance

Directors' remuneration is fully disclosed in the NWL Annual Report and Financial Statements for the year ended 31 March 2022, in the Remuneration Committee Report on **pages 89 to 182**. This is published on our website. To avoid duplication, this information has not been replicated within the APR.

The Remuneration Committee 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.

1A INCOME STATEMENT

financial performance for the 12 months ended 31 March 2022

		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Revenue	780.1	(30.0)	(33.4)	(63.4)	716.7
Operating costs	(591.8)	25.4	23.3	48.7	(543.1)
Other operating income	-	0.8	-	0.8	0.8
Operating profit	188.3	(3.8)	(10.1)	(13.9)	174.4
Other income	-	10.7	(1.5)	9.2	9.2
Interest income	0.3	0.2	(0.3)	(0.1)	0.2
Interest expense	(131.7)	(9.0)	0.2	(8.8)	(140.5)
Other interest expense	(2.4)	-	0.1	0.1	(2.3)
Profit before tax and fair value movements	54.5	(1.9)	(11.6)	(13.5)	41.0
Fair value gains/(losses) on financial instruments	(36.3)	-	-	-	(36.3)
Profit before tax	18.2	(1.9)	(11.6)	(13.5)	4.7
UK Corporation tax	9.7	(0.4)	0.8	0.4	10.1
Deferred tax	(171.7)	4.5	1.2	5.7	(166.0)
Profit for the year	(143.8)	2.2	(9.6)	(7.4)	(151.2)
Dividends	(340.5)	-	159.0	159.0	(181.5)
Tax analysis					
Current year	(8.0)	0.4	(0.8)	(0.4)	(8.4)
Adjustments in respect of prior years	(1.7)	-	-	-	(1.7)
UK Corporation tax	(9.7)	0.4	(0.8)	(0.4)	(10.1)

Analysis of non-appointed revenue

Imported sludge	-
Tankered waste	2.2
Other non-appointed revenue	31.2
Revenue	33.4

Differences between Statutory and Regulatory Definitions

Differences between statutory and RAG definitions are explained in note (a) of the Regulatory Accounting Policies and Disclosures.

The differences which result in a change to profit for the year reflect the following accounting treatments:

- capitalisation of borrowing costs, which are capitalised in the Statutory Financial Statements but charged to the Income Statement in the Regulatory Accounting Statements, along with the associated depreciation and deferred tax; and
- Innovation Fund costs, which are provided in the Statutory Financial Statements but removed from the Regulatory Accounting Statements, along with the associated tax.

Other changes are presentational in nature:

- income relating to energy generation and meter reading has been reclassified from revenue in the statutory accounts to negative operating costs;
- rental income, amortisation of deferred income and other contributions to capital investment have been reclassified from revenue in the statutory accounts to other income; and
- profit on disposal of fixed assets has been reclassified from operating costs in the statutory accounts to other operating income.

Interest Analysis

Interest expense comprises:

	£'m
Bank overdrafts and loans	(4.2)
Loans from financing subsidiary	(86.7)
Amortisation of issuance costs	5.5
Accretion on index-linked debt	(52.3)
Obligations under leases	(2.8)
Interest expense	(140.5)

NWL has a financing subsidiary, Northumbrian Water Finance Limited, which raises listed debt on its behalf. The debt is then loaned to NWL at the same terms.

Other interest expenses represents interest cost on pension plan obligations.

1B STATEMENT OF COMPREHENSIVE INCOME
financial performance for the 12 months ended 31 March 2022

		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Profit for the year	(143.8)	2.2	(9.6)	(7.4)	(151.2)
Actuarial gains/(losses) on post employment plans	109.2	-	(2.2)	(2.2)	107.0
Other comprehensive income	18.0	-	-	-	18.0
Total Comprehensive income for the year	(16.6)	2.2	(11.8)	(9.6)	(26.2)

1C STATEMENT OF FINANCIAL POSITION

financial performance for the 12 months ended 31 March 2022
(Registered number 02366703)

	Statutory	Adjustments: Differences between statutory and RAG definitions	Adjustments: Non-appointed	Adjustments: Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Non-current assets					
Fixed assets	4,825.2	(62.0)	(104.3)	(166.3)	4,658.9
Intangible assets	54.2	(2.3)	(0.2)	(2.5)	51.7
Investments - loans to group companies	1.9	-	(1.9)	(1.9)	-
Investments - other	-	-	-	-	-
Total non-current assets	4,881.3	(64.3)	(106.4)	(170.7)	4,710.6
Current assets					
Inventories	6.2	-	(0.4)	(0.4)	5.8
Trade & other receivables	235.9	1.3	(3.6)	(2.3)	233.6
Cash & cash equivalents	60.0	-	(0.3)	(0.3)	59.7
Total current assets	302.1	1.3	(4.3)	(3.0)	299.1
Current liabilities					
Trade & other payables	(161.5)	(59.6)	5.6	(54.0)	(215.5)
Capex creditor	(32.5)	-	0.2	0.2	(32.3)
Borrowings	(665.8)	62.8	-	62.8	(603.0)
Current tax liabilities	-	-	-	-	-
Provisions	(0.5)	-	-	-	(0.5)
Total current liabilities	(860.3)	3.2	5.8	9.0	(851.3)
Net current assets / (liabilities)	(558.2)	4.5	1.5	6.0	(552.2)
Non-Current liabilities					
Trade & other payables	-	-	-	-	-
Borrowings	(2,566.7)	-	-	-	(2,566.7)
Financial instruments	(65.6)	-	-	-	(65.6)
Retirement benefit obligations	17.5	-	(0.3)	(0.3)	17.2
Provisions	(3.3)	-	-	-	(3.3)
Deferred income - G&C's	(394.9)	0.1	85.9	86.0	(308.9)
Deferred income - adopted assets	(143.6)	-	-	-	(143.6)
Deferred tax	(648.0)	15.4	5.7	21.1	(626.9)
Total non-current liabilities	(3,804.6)	15.5	91.3	106.8	(3,697.8)
Net assets	518.5	(44.3)	(13.6)	(57.9)	460.6

1C STATEMENT OF FINANCIAL POSITION (continued)
financial performance for the 12 months ended 31 March 2022

		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£'m	£'m	£'m	£'m	£'m
Equity					
Called up share capital	122.7	-	(30.6)	(30.6)	92.1
Retained earnings & other reserves	395.8	(44.3)	17.0	(27.3)	368.5
Total Equity	518.5	(44.3)	(13.6)	(57.9)	460.6

Approved by the Board of Directors on 15 July 2022 and signed on their behalf by:

H Mottram

H Mottram

Differences Between Statutory and Regulatory Definitions

Differences between statutory and RAG definitions are explained in note (a) of the Regulatory Accounting Policies and Disclosures.

The change in net assets and total equity reflects the different treatment of borrowing costs, which are capitalised in the Statutory Financial Statements but charged to the income statement in the Regulatory Accounting Statements, along with the associated depreciation and deferred tax; and the removal of the provision for Innovation Fund costs from the Regulatory Accounts along with the associated tax. Other changes reflect the disaggregation of cash balances and trading balances between the appointed and non-appointed businesses.

1D STATEMENT OF CASH FLOWS
financial performance for the 12 months ended 31 March 2022

		Adjustments			
	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
					£'m
Operating profit	188.3	(3.8)	(10.1)	(13.9)	174.4
Other income	-	10.7	(1.5)	9.2	9.2
Depreciation	147.5	(2.0)	(2.2)	(4.2)	143.3
Amortisation - G&C's	-	-	-	-	-
Changes in working capital	24.8	(4.9)	(9.8)	(14.7)	10.1
Pension contributions	(19.6)	-	(0.2)	(0.2)	(19.8)
Movement in provisions	(15.7)	0.8	8.6	9.4	(6.3)
Profit on sale of fixed assets	-	(0.8)	-	(0.8)	(0.8)
Cash generated from operations	325.3	-	(15.2)	(15.2)	310.1
Net interest paid	(95.4)	-	(0.2)	(0.2)	(95.6)
Tax paid	(4.2)	-	-	-	(4.2)
Net cash generated from operating activities	225.7	-	(15.4)	(15.4)	210.3
Investing activities					
Capital expenditure	(252.2)	-	1.7	1.7	(250.5)
Grants & Contributions	15.6	-	-	-	15.6
Disposal of fixed assets	1.6	-	-	-	1.6
Other	-	-	-	-	-
Net cash used in investing activities	(235.0)	-	1.7	1.7	(233.3)
Net cash generated before financing activities	(9.3)	-	(13.7)	(13.7)	(23.0)
Cashflows from financing activities					
Equity dividends paid	(340.5)	-	159.0	159.0	(181.5)
Net loans received	381.2	-	(135.9)	(135.9)	245.3
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	40.7	-	23.1	23.1	63.8
Increase / (decrease) in net cash	31.4	-	9.4	9.4	40.8

1E NET DEBT ANALYSIS as at 31 March 2022
Appointed Business only

	Interest rate risk profile				
			Index linked		
	Fixed rate	Floating rate	RPI	CPI/CPIH	Total
	£'m	£'m	£'m	£'m	£'m
Borrowings (excluding preference shares)	1,793.6	190.2	1,079.5	106.4	3,169.7
Preference share capital					-
Total borrowings					3,169.7
Cash					1.0
Short term deposits					-
Net Debt					3,170.7
Gearing					69.7%
Adjusted Gearing					69.7%
Interest					
Full year equivalent nominal interest cost	79.3	1.1	111.9	7.8	200.1
Full year equivalent cash interest payment	79.3	1.1	13.7	0.3	94.4
Indicative interest rates					
Indicative weighted average nominal interest rate	4.35%	0.59%	10.35%	7.30%	6.25%
Indicative weighted average cash interest rate	4.35%	0.59%	1.27%	0.24%	2.95%
Time to maturity					
Weighted average years to maturity	7.8	3.4	15.8	17.0	10.5

1F FINANCIAL FLOWS for the 12 months ended 31 March 2022 and for the price review to date

	12 months ended 31 March 2022						Average 2020-25					
	%			£'m			%			£'m		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Regulatory equity (£m)	1,618.7	1,618.7	1,223.7				1,605.2	1,605.2	1,213.0			
Return on regulatory equity	4.40	3.33	4.40	71.2	53.8	53.8	4.37	3.30	4.37	70.1	53.0	53.0
Financing												
Impact of movement from notional gearing		1.07	1.39		17.4	17.1		1.07	1.38		17.1	16.9
Gearing benefits sharing		-	-		-	-		-	-		-	-
Variance in corporation tax		0.97	1.28		15.6	15.6		0.49	0.65		7.9	7.9
Group relief		-	-		-	-		-	-		-	-
Cost of debt		2.08	3.18		33.6	39.0		0.66	1.01		10.7	12.3
Hedging instruments		(1.78)	(2.73)		(28.8)	(33.4)		(1.17)	(1.80)		(18.9)	(22.0)
Return on regulatory equity including Financing adjustments	4.40	5.67	7.52	71.2	91.6	92.1	4.37	4.35	5.61	70.1	69.8	68.1
Operational Performance												
Totex out / (under) performance		(0.74)	(0.98)		(11.9)	(11.9)		(0.15)	(0.20)		(2.4)	(2.4)
ODI out / (under) performance		(1.23)	(1.62)		(19.9)	(19.9)		(0.56)	(0.73)		(9.0)	(9.0)
C-Mex out / (under) performance		0.18	0.24		2.9	2.9		0.09	0.12		1.4	1.4
D-Mex out / (under) performance		0.02	0.03		0.4	0.4		0.01	0.01		0.2	0.2
Retail out / (under) performance		(0.73)	(0.96)		(11.7)	(11.7)		(0.94)	(1.25)		(15.3)	(15.3)
Other exceptional items		0.03	0.04		0.4	0.4		0.03	0.04		0.5	0.5
Operational performance total		(2.47)	(3.25)		(39.8)	(39.8)		(1.52)	(2.01)		(24.6)	(24.6)
RoRE (return on regulatory equity)	4.40	3.20	4.27	71.2	51.8	52.3	4.37	2.83	3.60	70.1	45.2	43.5
RCV growth	7.26	7.26	7.26	117.5	117.5	88.8	4.16	4.16	4.16	66.8	66.8	50.5
Voluntary sharing arrangements		-	-		-	-		-	-		-	-
Total shareholder return	11.66	10.46	11.53	188.7	169.3	141.1	8.53	6.99	7.76	136.9	112.0	94.0

1F FINANCIAL FLOWS for the 12 months ended 31 March 2022 and for the price review to date (continued)

	12 months ended 31 March 2022						Average 2020-25					
	%			£'m			%			£'m		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Dividends												
Gross Dividend	3.18	10.33	13.67	51.5	167.2	167.2	3.18	5.21	6.89	51.0	83.6	83.6
Interest Receivable on Intercompany loans		-	-		-	-		-	-		-	-
Retained Value	8.48	0.13	(2.14)	137.2	2.1	(26.1)	5.35	1.78	0.87	85.9	28.4	10.4
Cash impact of 2015-20 performance adjustments												
Totex out / under performance		-	-		-	-		0.16	0.22		2.6	2.6
ODI out / under performance		-	-		-	-		-	-		-	-
Total out / under performance		-	-		-	-		0.16	0.22		2.6	2.6

Explanation of Financial Flows

The purpose of this table is to provide transparency of financial flows to investors, comparing actual flows, and the main elements of performance which contribute to these flows, against the financial flows assumed by Ofwat under the notional structure at the last price review.

The table shows performance for 2021/22 and cumulative performance for the first two years of the 2020-2025 price control period. All of the financial values are expressed in the same 2017/18 price base as the PR19 price review. The commentary below focuses on 2021/22 performance except where stated.

Return on regulatory equity (RORE)

At PR19, the base notional RORE was set at 4.40% for 2021/22. The regulatory equity base represents the proportion of RCV funded as equity rather than debt. Ofwat's notional structure for PR19 assumed net debt at 60% of RCV, equating to base regulatory equity of 40%, or £1,619m at March 2022.

NWL's actual average gearing in 2021/22 was 69.6%, due to having higher net debt than assumed by Ofwat's notional structure, resulting in actual regulatory equity of 30.4% of RCV, or £1,224m.

On the Company's actual structure, this equated to a base return of £53.8m.

Explanation of Financial Flows (continued)

Financing

This section of the report relates to performance from financing, excluding tax.

Gearing is calculated as net debt divided by RCV. NWL's average gearing was 69.6%, remaining above Ofwat's notional structure assumption of 60% but below our target level of around 70%. The more efficient capital structure has generated a financing benefit of £17.1m. The CMA redetermination removed the gearing sharing mechanism for NWL, though it would not have come into effect during the year if it had been applied.

Corporation tax reports the difference current tax funded in the FD and the actual tax rate applied to profit before fair value, adjusted for capital allowances. This has shown an outperformance of £15.6m in 2021/22, due to a combination of lower taxable profits and accelerated 'super deductions' on capital investment. A reconciliation of our current tax to FD allowance is provided on **page 155**. All tax losses acquired from related parties in the year were paid for in full.

Cost of debt performance is reported in real terms, rather than nominal. As reported in table 4H, 60% of the Company's debt is at fixed rate and not impacted by indexation. In 2021/22, the real cost of debt was 1.39% lower than allowed in the FD due to relatively high CPIH inflation, generating a £39m outperformance on cost of debt.

Hedging instruments shows the impact of interest rate swaps on the cost of debt reported in the year, and equated to a negative return of cost of £33.4m in the year. This reflected adverse mark to market movements on inflation-linked swaps which will reverse over the remaining term of the instruments.

The net effect of financing and tax in the year was an outperformance of FD allowance by £38.3m, or 3.12% of actual regulatory equity.

Operational Performance

This section of the report explains the impact of operational performance on wholesale totex, ODIs and retail costs, each of which is explained elsewhere in this report.

Wholesale totex performance reflects the performance presented in table 4C, and excludes variations due to timing of expenditure. The underperformance of £11.9m reflects overspends on each price control, other than bioresources. As explained in the commentary to table 4C on **page 190**, this primarily relates to higher operating costs caused by the unprecedented increase in energy costs during the year.

ODI performance against our PCs is reported in the tables in section 3, with table 3H reporting the summary incentive rewards and penalties (excluding C-MeX and D-MeX explained below). The reported performance for the year for in-period adjustments is a net penalty of £19.9m. This includes the full impact of Storm Arwen on interruptions to supply however, as explained on page [X], we have made a representation to Ofwat for an exemption in respect of Storm Arwen, as it was declared a civil emergency. If our representation is accepted in full then the ODI performance would improve by £22.4m to a net reward of £2.5m in the year. Our performance against each ODI is explained earlier in this report.

Performance rewards on C-MeX and D-Mex are based on comparative performance across the sector and are not finalised until later in the year. For the purposes of this table, the performance is reported a year in arrears so the rewards of £2.9m for C-MeX and £0.4m for D-MeX relate to 2020/21 performance. Our performance has improved on both measures therefore we would expect to earn a larger reward for 2021/22 which will be reported in next year's APR.

Retail costs were higher than the PR19 allowance by £11.7m, as explained in the narrative to table 2C and due in part to the allowance not being increased each year for inflation.

Exceptional items of £0.4m reflects the company's share of benefits from the disposal of surplus land and properties.

The net effect of operational performance in the year was an underperformance of FD allowance by £39.8m, 3.25% of regulatory equity, though this would reduce by more than half if our representation on Storm Arwen is accepted in full.

Total Shareholder Return

The total shareholder return comprises base RORE, financing performance, operational performance and growth in the RCV as allowed in the FD. Our total shareholder return of £141.1m performance comprises £52.3m RORE and £88.8m growth in RCV, reflecting the high levels of inflation in the latter part of the year.

Retained Value

Our dividend policy is set out on **page 175** and we explain how this dividend policy is applied on **pages 175 to 176**. This explains that we paid no dividends between April 2019 and April 2021, reflecting the impact of the PR19 FD and the uncertainty surrounding the CMA redetermination process and the Covid-19 pandemic. A final dividend for the year ended 31 March 2021 was paid during 2021/22 which reflected cumulative financial performance over the previous two years, including the final year of the previous price review period.

It is therefore more appropriate to consider dividends and retained value on a cumulative basis. For the price control period to date, gross dividends of £83.6m have been paid, including amounts related to the previous price control period. The average shareholder return for the price control is £94.0m, generating a retained value of £10.4m.

Return on Regulatory Equity

This commentary explains the differences between the base return at PR19 and actual return.

The FD RORE for 2021/22 was 4.40%. Actual returns on actual regulatory equity for 2021/22 were 4.27%, an underperformance of 0.13%. The reasons of this variance have been explained in the commentary above, but are summarized below.

Financing outperformance was 3.12%, due largely to the benefit of having gearing above the notional structure (1.39%), lower current tax as a result of lower profits and accelerated super deductions (1.28%) and the impacts of higher inflation on the cost of debt in real terms (3.19%), partially offset by the impact of high inflation on hedging instruments (-2.73%). For the real cost of debt, 57% of our debt is fixed rate and does not vary with inflation, therefore when inflation is comparatively high, the real cost of debt appears lower.

Operational underperformance was -3.25%, due to wholesale totex performance which was heavily impacted by energy costs (-0.98%), a net ODI underperformance caused primarily by interruptions to supply during Storm Arwen for which we have made a representation to Ofwat to exclude as it related to a civil emergency (-1.62%), and inflationary pressures on retail costs (-0.96%). These are partially offset by positive C-MeX and D-MeX performance in 2020/21 (0.27%) and proceeds from the disposal of surplus land (0.04%).

APPOINTED BUSINESS TAXATION

The rate of UK corporation tax for the current year was 19%. The Company's deferred tax liabilities have been restated from 19% to 25%, in response to Finance Act 2021 which provides for an increase in the tax rate with effect from 1 April 2023. The movement in the year has been calculated at the higher rate.

Current tax for the Appointed business is derived by adjusting the Company's statutory position by the amount relating to the activities of the Non-appointed business. The Appointed business credit for the year of £8.4m includes £7.6m relating to a carry back of tax losses, £0.7m payable for UK:UK transfer pricing items, £0.7m receivable from the Non-appointed business in respect of tax losses that will be surrendered by the Appointed business, and £0.8m receivable from fellow group companies for similar loss surrenders. The surrenders have not required the disclaimer of any capital allowances by the Appointed Business and payments for the losses will be made at the full rate of corporation tax.

The prior years' corporation tax credit of £1.7m reflects revisions to tax reliefs for capital expenditure and R&D claims made.

The current corporation tax credit of £8.4m reflects a swing of £20.0m compared to the charge of £11.6m in 2020/21 and is explained by the decrease in profit before tax and fair value movements (-£7.4m), additional tax reliefs for capital expenditure (notably super deductions) (-£12.6m), deductions for previous provisions (-£2.5m), a one off deduction on the change of basis of accounting for 'software as a service' (-£4.2m), tax losses (+£6.1m), and other small variances (+£0.6m).

The deferred tax charge for the Appointed business is derived by adjusting the Company's statutory charge (£171.7m) by amounts relating to accounting differences (i.e. capitalised interest: charge of £5.1m; Innovation Fund: credit £0.6m) and the activities of the Non-appointed business (charge of £1.2m). The Appointed business charge of £166.0m includes £153.4m in relation to the rate restatement, £5.4m for the current year, £4.2m relating to SaaS and £3.0m for prior years related to the matters referred to above. Deferred tax in the year and at the balance sheet date is all provided at 25%, being the rate at which temporary differences are expected to reverse.

An explanation of why the current tax credit for the Appointed business is lower than the result of applying the standard rate of corporation tax to profit before tax is provided in the table opposite:

CURRENT TAX RECONCILIATION FOR THE 12 MONTHS ENDED 31 MARCH 2022

	Total appointed activities
	£'m
Profit before tax and fair value movements	41.0
Profit before tax and fair value movements multiplied by standard rate of corporation tax of 19%	7.8
EFFECTS OF:	
Expenses incurred that are not deductible for tax purposes	0.4
Non-taxable income	(0.1)
Super deductions claimed in excess of cost	(2.2)
Change of accounting basis for 'software as a service'	(4.2)
Depreciation in respect of non-qualifying items	0.9
Tax reliefs claimed for capital expenditure in excess of accounts depreciation	(21.5)
Grants and contributions received in excess of accounts amortisation	5.9
Pension contributions paid in excess of accounts service and finance costs	(4.3)
Other temporary differences	(2.6)
Tax losses carried forward	8.0
Deferred tax movements not at the standard rate for the year	3.5
Adjustments in respect of prior periods	(1.7)
UK:UK transfer pricing adjustments	(0.7)
Balancing payment payable	0.7
Appointed current tax credit per line 1A.12	(10.1)

Future tax charges will be affected by the following matters:

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.

In particular, the temporary increase in the rate of capital allowances provided in Finance Act 2021 that commenced in the current year will also apply to qualifying expenditure incurred in the year ended 31 March 2023. This 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.

CURRENT TAX RECONCILIATION TO FD

An allowance for corporation tax was made in the Final Determination (FD) at PR19. Actual performance differs to the FD for a number of reasons. As far as current tax is concerned, the charge for the year is reconciled to the FD allowance as follows:

	Total appointed activities
	£'m
Current tax charge (at 19%) allowed in price limits	14.6
Net decrease in profit before tax and depreciation	(6.6)
Increase in allowable pension contributions	(3.0)
Increase in tax reliefs for capital expenditure	(2.0)
Increase in capital allowances due to 'super deductions'	(10.6)
Decrease in amortisation of grants and contributions	(1.1)
Decrease in provisions	(2.1)
Increase in service income taxed via capital allowances	0.1
Change in accounting basis for 'software as a service'	(4.2)
Other	0.4
Tax losses arising in the year	13.7
Credit arising from carry back of tax losses	(7.6)
Adjustment in respect of prior years	(1.7)
Appointed current tax credit per line 1A.12	(10.1)

APPOINTED BUSINESS TAX STRATEGY

Scope

The Company is required, by section 3.30 of RAG 3.13, to publish details of its Tax Strategy relating to the Appointed Business within the Annual Performance Report. For the avoidance of doubt, the Company has a single Tax Strategy which applies to its Appointed and Non-appointed businesses, as well as to its subsidiaries.

The Tax Strategy set out below is for the Company's financial year ended 31 March 2022 in order to satisfy the requirements of Schedule 19, Finance Act 2016.

Aim

The Company is committed to fully complying with all its statutory tax obligations, including the payment and recovery of taxes at the right time and the provision of all relevant information to HM Revenue and Customs (HMRC) to support the amounts of tax concerned.

The Company's Board owns and approves the Tax Strategy which comprises the following four components:

a) Tax governance arrangements

The Board reviews and approves all significant investment and business operating decisions directly or delegates the appropriate authority. The Company's Audit Committee considers significant tax related matters as part of its monitoring of internal controls and financial reporting arrangements.

Day-to-day management of the Company's tax affairs is delegated to the Tax Manager and to other appropriately qualified staff who have responsibility for specific taxes. All staff with responsibility for tax report to members of the Company's senior management team which, in turn, reports to the Board.

The Company's tax affairs are conducted in a business-like manner in accordance with the Company's commitment to corporate responsibility.

b) Tax risk management framework

The Company's Risk Committee oversees the risk assessment process applied by the business which includes an assessment of tax risks. Significant risks identified by the business are escalated for the Committee to consider.

As far as possible, through the activities of its Board, Committees and personnel responsible for tax matters, the Company seeks to reduce or eliminate the level of tax risk arising from its operations by ensuring appropriate processes and controls are in place.

The Company only takes tax positions which are justifiable and based on law, with advice taken from reputable professional firms where necessary. In accordance with internal governance procedures, any transaction that is likely to have material tax consequences must be referred to the Board.

To help manage tax risk, the Company's taxation affairs are only handled by appropriately qualified and experienced staff and, where necessary, training is given to non-tax staff who are involved in processes which have tax implications.

The Company does not tolerate or condone any form of tax evasion, whether committed or facilitated by its own staff or any associated persons (e.g. agents and other persons who perform services for or on behalf of the Company) and manages this risk by the use of appropriate processes.

c) Approach to tax planning

The Company considers tax as part of its business decision making process. When entering into commercial transactions, the Company seeks to obtain the benefit of tax incentives, reliefs and exemptions available under UK tax legislation, consistent with the purpose and the letter of the law.

The tax affairs of the Company are arranged and managed in response to, and in support of, its business or commercial activities. Related party transactions are managed and documented to ensure they are in compliance with local tax law and practice.

d) Relationship with HMRC

The Company seeks to have a transparent and constructive relationship with HMRC on all taxation matters and keeps HMRC aware of significant transactions and business developments. All contact with HMRC is conducted in a professional and courteous manner.

The Company seeks to obtain certainty from HMRC at the earliest opportunity on the tax treatment of complex or uncertain issues. Discussions with HMRC are held at least annually to review past and present tax risks and agree on the steps required to take matters forward. Resolution of any disputed matters will be sought through open discussion and negotiation with HMRC, but the Company is prepared to litigate in cases where it believes the technical basis of a decision is incorrect.

The Company takes an active role in the development of the UK's legislative framework through participation at company or industry level in Government consultations on significant new tax laws.

Publication date: 15 July 2022.

2A SEGMENTAL INCOME STATEMENT for the 12 months ended 31 March 2022

	Residential retail	Business retail	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Revenue - price control	56.0	-	90.0	311.0	231.7	19.7	708.4
Revenue - non price control	-	0.3	-	8.0	-	-	8.3
Operating expenditure - excluding PU recharge impact	(50.9)	-	(79.0)	(172.0)	(99.4)	(1.5)	(402.8)
PU opex recharge	(4.0)	-	(0.5)	10.1	(4.8)	(0.8)	-
Operating expenditure - including PU recharge impact	(54.9)	-	(79.5)	(161.9)	(104.2)	(2.3)	(402.8)
Depreciation - tangible fixed assets	(2.2)	-	(7.0)	(65.6)	(51.5)	(8.0)	(134.3)
Amortisation - intangible fixed assets	(1.3)	-	-	(7.6)	(0.1)	-	(9.0)
Other operating income	-	-	-	0.6	0.1	0.1	0.8
Operating profit	(2.4)	0.3	3.5	84.5	76.0	9.5	171.4
Surface water drainage rebates							0.2

2B TOTEX ANALYSIS: WHOLESALE for the 12 months ended 31 March 2022

	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m
Base operating expenditure					
Power	12.8	27.7	29.5	6.1	76.1
Income treated as negative expenditure	(0.4)	-	-	(17.9)	(18.3)
Abstraction charges/ discharge consents	43.4	0.3	3.7	-	47.4
Bulk Supply/Bulk discharge	0.9	-	-	-	0.9
Renewals expensed in year (Infrastructure)	0.5	1.4	-	-	1.9
Renewals expensed in year (Non-Infrastructure)	0.1	3.8	1.4	0.5	5.8
Other operating expenditure (including Location specific costs & obligations)	7.9	97.1	61.1	12.6	178.7
Local authority and Cumulo rates	4.2	26.6	4.7	1.0	36.5
Total base operating expenditure	69.4	156.9	100.4	2.3	329.0
Other operating expenditure					
Enhancement operating expenditure	1.2	0.9	3.3	-	5.4
Developer services operating expenditure	-	0.2	0.3	-	0.5
Total operating expenditure excluding third party services	70.6	158.0	104.0	2.3	334.9
Third party services	8.9	3.9	0.2	-	13.0
Total operating expenditure	79.5	161.9	104.2	2.3	347.9
Grants and contributions - operating expenditure	-	-	-	-	-
Capital expenditure					
Base capital expenditure	16.2	94.7	68.8	2.1	181.8
Enhancement capital expenditure	3.1	24.7	24.0	-	51.8
Developer services capital expenditure	-	20.8	1.1	-	21.9
Total gross capital expenditure excluding third party	19.3	140.2	93.9	2.1	255.5
Third party services	-	-	-	-	-
Total gross capital expenditure	19.3	140.2	93.9	2.1	255.5
Grants and contributions - capital expenditure	-	16.2	3.2	-	19.4
Net totex	98.8	285.9	194.9	4.4	584.0
Cash expenditure					
Pension deficit recovery payments	0.5	10.6	5.0	0.4	16.5
Other cash items	-	-	-	-	-
Totex including cash items	99.3	296.5	199.9	4.8	600.5

2C COST ANALYSIS: RETAIL for the 12 months ended 31 March 2022

	Residential	Business	Total
	£'m	£'m	£'m
Operating expenditure			
Customer services	14.7	-	14.7
Debt management	4.6	-	4.6
Doubtful debts	13.4	-	13.4
Meter reading	2.4	-	2.4
Services to developers		-	-
Other operating expenditure	12.1	-	12.1
Local authority and Cumulo rates	0.3	-	0.3
Total operating expenditure excluding third party services	47.5	-	47.5
Depreciation			
Depreciation (tangible fixed assets) on assets existing at 31 March 2015	0.5	-	0.5
Depreciation (tangible fixed assets) on assets acquired after 1 April 2015	1.7	-	1.7
Amortisation (intangible fixed assets) on assets existing at 31 March 2015	-	-	-
Amortisation (intangible fixed assets) on assets acquired after 1 April 2015	1.2	-	1.2
Recharges			
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	1.3	-	1.3
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	(0.1)	-	(0.1)
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	2.9	-	2.9
Income from wholesale assets acquired after 1 April 2015 principally used by retail	(0.1)	-	(0.1)
Net recharges costs	4.0	-	4.0
Total retail costs excluding third party and pension deficit repair costs	54.9	-	54.9
Third party services operating expenditure	-	-	-
Pension deficit repair costs	3.4	-	3.4
Total retail costs including third party and pension deficit repair costs	58.3	-	58.3
Debt written off	22.4	-	22.4
Capital expenditure	3.5	-	3.5

2C COST ANALYSIS: RETAIL for the 12 months ended 31 March 2022 (continued)

	Residential	Business	Total
	£'m	£'m	£'m
Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale:			
Demand-side water efficiency - gross expenditure	1.0		
Demand-side water efficiency - expenditure funded by wholesale	1.0		
Demand-side water efficiency - net retail expenditure	-		
Customer-side leak repairs - gross expenditure	0.7		
Customer-side leak repairs - expenditure funded by wholesale	0.7		
Customer-side leak repairs - net retail expenditure	-		
Comparison of actual and allowed expenditure			
Cumulative actual retail expenditure to reporting year end	118.7		
Cumulative allowed expenditure to reporting year end	97.5		
Total allowed expenditure 2020-25	247.5		

Retail revenue and cost reconciliation to FD

Household retail revenue, reported in table 2I, was £56.0m, which was £0.5m higher than allowed in the FD.

Household retail costs excluding pension deficit repair costs, in table 2C above, were £54.9m, which was £5.9m higher than allowed in the FD, giving rise to a margin of 2%.

The operating costs are £9m lower than 2020/21, due mainly to a reduction in the bad debt provision. This includes the release of the £6.5m provision created for Covid-19 risk charge which is no longer required due to cash collection remaining strong throughout the pandemic. The retail cost base is higher than the allowance in the FD, reflecting inflationary pressures on staff and other costs which were not allowed in the FD.

2D HISTORIC COST ANALYSIS OF TANGIBLE FIXED ASSETS for the 12 months ended 31 March 2022

	Residential Retail	Business retail	Water resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Cost							
At 1 April 2021	29.9	-	312.2	3,329.1	2,951.6	200.7	6,823.5
Disposals	(0.1)	-	(0.9)	(2.9)	(1.1)	(0.6)	(5.6)
Additions	0.8	-	19.5	134.8	94.0	2.1	251.2
Adjustments	0.3	-	5.0	(5.4)	(2.1)	2.2	-
Assets adopted at nil cost	-	-	-	1.8	11.6	-	13.4
At 31 March 2022	30.9	-	335.8	3,457.4	3,054.0	204.4	7,082.5
Depreciation							
At 1 April 2021	(23.1)	-	(69.5)	(1,230.9)	(836.2)	(134.3)	(2,294.0)
Disposals	0.1	-	0.1	2.9	1.1	0.5	4.7
Adjustments	-	-	0.9	(0.9)	-	-	-
Charge for year	(2.2)	-	(7.0)	(65.6)	(51.5)	(8.0)	(134.3)
At 31 March 2022	(25.2)	-	(75.5)	(1,294.5)	(886.6)	(141.8)	(2,423.6)
Net book amount at 31 March 2022	5.7	-	260.3	2,162.9	2,167.4	62.6	4,658.9
Net book amount at 1 April 2021	6.8	-	242.7	2,098.2	2,115.4	66.4	4,529.5
Depreciation charge for year							
Principal services	(2.2)	-	(6.5)	(65.6)	(51.5)	(8.0)	(133.8)
Third party services	-	-	(0.5)	-	-	-	(0.5)
Total	(2.2)	-	(7.0)	(65.6)	(51.5)	(8.0)	(134.3)

The net book value includes £224.4m in respect of assets in the course of construction.

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2E ANALYSIS OF 'GRANTS AND CONTRIBUTIONS': WATER RESOURCES, WATER NETWORK+ AND WASTEWATER NETWORK+ for the 12 months ended 31 March 2022

	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total
	£'m	£'m	£'m	£'m
Grants and contributions - water resources				
Diversions - s185	-	-	-	-
Other contributions (price control)	-	-	-	-
Price control grants and contributions	-	-	-	-
Diversions - NRSWA	-	-	-	-
Diversions - other non-price control	-	-	-	-
Other contributions (non-price control)	-	-	-	-
Total	-	-	-	-
Value of adopted assets	-	-		-
Grants and contributions - water network+				
Connection charges	-	11.4	-	11.4
Infrastructure charge receipts	-	0.9	-	0.9
Requisitioned mains	-	6.3	-	6.3
Diversions - s185	0.6	-	-	0.6
Other contributions (price control)	0.2	0.1	-	0.3
Price control grants and contributions before deduction of income offset	0.8	18.7	-	19.5
Income offset	-	5.5	-	5.5
Price control grants and contributions after deduction of income offset	0.8	13.2	-	14.0
Diversions - NRSWA	1.5	-	-	1.5
Diversions - other non-price control	-	-	-	-
Other contributions (non-price control)	0.7	-	-	0.7
Total	3.0	13.2	-	16.2
Value of adopted assets	-	1.8		1.8
Grants and contributions - wastewater network+				
Receipts for on-site work	-	0.1	-	0.1
Infrastructure charge receipts	-	1.6	-	1.6
Diversions - s185	0.2	-	-	0.2
Other contributions (price control)	0.7	-	-	0.7
Price control grants and contributions before deduction of income offset	0.9	1.7	-	2.6
Income offset	-	-	-	-
Price control grants and contributions after deduction of income offset	0.9	1.7	-	2.6
Diversions - NRSWA	-	-	-	-
Diversions - other non-price control	-	-	-	-
Other Contributions (non-price control)	0.6	-	-	0.6
Total	1.5	1.7	-	3.2
Value of adopted assets	-	11.6		11.6

2E ANALYSIS OF 'GRANTS AND CONTRIBUTIONS': WATER RESOURCES, WATER NETWORK+ AND WASTEWATER NETWORK+ for the 12 months ended 31 March 2022 (continued)

	Water resources	Water network+	Wastewater network+	Total
	£'m	£'m	£'m	£'m
Movements in capitalised grants and contributions				
Brought forward	0.6	249.7	178.9	429.2
Received in year (above)	-	13.2	1.7	14.9
Adopted assets	-	1.8	11.6	13.4
Transferred from receipts in advance	-	(0.2)	0.8	0.6
Amortisation (in income statement)	-	(3.5)	(2.1)	(5.6)
Carried forward	0.6	261.0	190.9	452.5

Grants and contributions falling within the wholesale price control, and therefore also reported on table 2B, comprise connection charges, infrastructure charge receipts and requisitioned mains and sewers.

2F RESIDENTIAL RETAIL for the 12 months ended 31 March 2022

	Revenue	Number of customers	Average residential revenues
	£'m	000s	£
Residential revenue			
Wholesale charges	501.4		
Retail revenue	56.0		
Total residential revenue	557.4		
Retail revenue			
Revenue Recovered ("RR")	56.0		
Revenue sacrifice	-		
Actual revenue (net)	56.0		
Adjustment			
Allowed revenue ("R")	55.5		
Net adjustment	(0.5)		
Customer information			
Actual customers ("AC")		1,954.8	
Reforecast customers		1,948.0	
Other residential information			
Average residential retail revenue per customer			28.6

2G & 2H NON-HOUSEHOLD WATER AND WASTEWATER REVENUES BY TARIFF TYPE

NWL exited the NHH retail market at 1 April 2017 and transferred its NHH retail business to an acquiring licenced retailer, NWGB, another subsidiary of NWGL.

In accordance with RAG 4.10, as NWL has exited all NHH market activities, we are no longer required to publish tables 2G and 2H.

NWL still provides wholesale water and wastewater services to NHH properties in our areas of supply. The NHH wholesale revenue for the year ended 31 March 2022 was £135.0m, as reported in table 2I.

2I REVENUE ANALYSIS for the 12 months ended 31 March 2022

	Household	Non-household	Total	Water resources	Water network+	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Wholesale charge - water						
Unmeasured	168.5	1.2	169.7	43.5	126.2	169.7
Measured	145.5	79.6	225.1	46.0	179.1	225.1
Third party revenue	1.6	4.6	6.2	0.5	5.7	6.2
Total wholesale water revenue	315.6	85.4	401.0	90.0	311.0	401.0

	Household	Non-household	Total	Wastewater network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Wholesale charge - wastewater						
Unmeasured - foul charges	75.6	0.6	76.2	70.2	6.0	76.2
Unmeasured - surface water charges	28.1	1.6	29.7	27.3	2.4	29.7
Unmeasured - highway drainage charges	14.2	0.7	14.9	14.8	0.1	14.9
Measured - foul charges	34.8	33.5	68.3	62.3	6.0	68.3
Measured - surface water charges	21.5	20.0	41.5	38.0	3.6	41.6
Measured - highway drainage charges	11.4	9.2	20.6	18.9	1.6	20.5
Third party revenue	0.2	-	0.2	0.2	-	0.2
Total wholesale wastewater revenue	185.8	65.6	251.4	231.7	19.7	251.4
Wholesale charge - Additional Control						
Unmeasured	-	-	-			
Measured	-	-	-			
Total wholesale additional control revenue	-	-	-			
Wholesale Total	501.4	151.0	652.4			
Retail revenue						
Unmeasured	29.4	-	29.4			
Measured	26.6	-	26.6			
Other third party revenue	-	-	-			
Retail Total	56.0	-	56.0			
Third party revenue - non-price control						
Bulk supplies - water			3.2			
Bulk supplies - wastewater			-			
Other third party revenue			4.6			
Principal services - non-price control						
Other appointed revenue			0.5			
Total appointed revenue			716.7			

2I REVENUE ANALYSIS for the 12 months ended 31 March 2022 (continued)

Wholesale revenue control reconciliation to FD

Charges for 2021/22 were set in accordance with the price controls set by Ofwat in its PR19 Final Determination. The changes to allowances resulting from the CMA redetermination take effect in price controls from 2022/23.

During the COVID-19 pandemic we have seen an increase in household consumption due to the impact of various lockdown periods and customers working from home. This increased consumption has continued during the year. Various initiatives have continued during the year which have led to a reduction in the number of household voids to a rate of 3.53% at the year end.

For our non-household charging base, during the year we have seen consumption broadly in line with anticipated levels. Non-household voids have remained relatively stable.

Wholesale water revenue in 2021/22 was £5.1m (1.2%) higher than the revenue cap income allowance. This is split between the resources and network+ price controls which were £8.3m (10.2%) higher and £3.2m (1.0%) lower than revenue cap respectively. Within the network+ price control, grants and contributions income was £6.7m (32%) lower than the allowed revenue for the period, this is partly due to the impact of COVID-19 pandemic which has slowed down construction.

Wholesale wastewater revenue in 2021/22 was £1.0m (0.4%) lower than the revenue cap income allowance. This is split between the network+ and bioresources price controls which were £1.3m (0.6%) higher and £2.3m (10.6%) lower respectively. Within the network+ price control, grants and contributions income is £1.2m (31.9%) lower than the allowed revenue for the period, this is partly due to the impact of COVID-19 pandemic which has slowed down construction.

The revenue imbalances in the table above (for water resources and the network+ controls) will be incorporated into the Revenue Forecasting Incentive model and will be adjusted within charges for 2023/24 against the relevant price controls.

2J INFRASTRUCTURE NETWORK REINFORCEMENT COSTS for the 12 months ended 31 March 2022

	Network reinforcement capex	On site / site specific capex (memo only)
	£'m	£'m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	2.2	-
Pumping and storage facilities	0.5	-
Other	-	-
Total	2.7	-
Wholesale wastewater network+ (sewage collection)		
Foul and combined systems	-	-
Surface water only systems	-	-
Pumping and storage facilities	-	-
Other	-	-
Total	-	-

2K INFRASTRUCTURE CHARGES RECONCILIATION for the 12 months ended 31 March 2022

	Water	Wastewater	Total
	£'m	£'m	£'m
Impact of infrastructure charge discounts			
Infrastructure charges	0.9	1.6	2.5
Discounts applied to infrastructure charges	-	0.7	0.7
Gross infrastructure charges	0.9	2.3	3.2
Comparison of revenue and costs			
Variance brought forward	5.2	(1.3)	3.9
Revenue	0.9	1.6	2.5
Costs	(2.7)	-	(2.7)
Variance carried forward	3.4	0.3	3.7

Reconciliation of infrastructure charges and network reinforcement costs

Infrastructure charges are set at a level to fund investment in reinforcement of our networks, to meet the demand arising from new development of household properties. We are required to ensure that revenue from infrastructure charges broadly matches network reinforcement expenditure over a five year rolling period.

We review infrastructure charges annually, taking account of extra capacity expected to be required as a result of new developments in the following five years. Our forecast reflects applications received for the provision of new infrastructure, pre-development enquiries and a longer term view of local authority plans and strategic studies.

Water

During 2021/22, expenditure on water network reinforcement projects was greater than infrastructure charges receipts. The net position at the end of 2021/22 was that the cumulative expenditure on water network reinforcement is £3.5m less than the infrastructure charge income received (2020/21: £5.2m). The projected network reinforcement expenditure over the next five years has been reassessed and is expected to be significant to support new development growth. Our plan is to increase water infrastructure charges to fund the next five year's reinforcement expenditure whilst accounting for the £3.5m surplus of receipts that exist presently.

Wastewater

During 2021/22, expenditure on wastewater network reinforcement projects was less than infrastructure charges receipts. The net position at the end of 2021/22 was that the cumulative expenditure on wastewater network reinforcement is £0.3m less than the infrastructure charge income received (2020/21: £1.3m more). The projected network reinforcement expenditure over the next five years has been reassessed and is not expected to be significant. We have reduced wastewater infrastructure charges to fund the next five year's reinforcement expenditure whilst accounting for the £0.3m surplus of receipts that exist presently.

2L LAND SALES for the 12 months ended 31 March 2022

	Water resources	Water Network+	Wastewater Network+	Total
	£'m	£'m	£'m	£'m
Land sales – proceeds from disposals of protected land	0.4	0.6	-	1.0

2M REVENUE RECONCILIATION: WHOLESALE for the 12 months ended 31 March 2022

	Water resources	Water network+	Wastewater network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m
Revenue recognised					
Wholesale revenue governed by price control	90.0	311.0	231.7	19.7	652.4
Grants & contributions (price control)	-	14.0	2.6	-	16.6
Total revenue governed by wholesale price control	90.0	325.0	234.3	19.7	669.0
Calculation of the revenue cap					
Allowed wholesale revenue before adjustments (or modified by CMA)	81.7	307.6	229.2	22.1	640.6
Allowed grants & contributions before adjustments (or modified by CMA)	-	20.6	3.8	-	24.4
Revenue adjustment	-	-	-	-	-
Other adjustments	-	-	-	-	-
Revenue cap	81.7	328.2	233.0	22.1	665.0
Calculation of the revenue imbalance					
Revenue cap	81.7	328.2	233.0	22.1	665.0
Revenue Recovered	90.0	325.0	234.3	19.7	669.0
Revenue imbalance	(8.3)	3.2	(1.3)	2.4	(4.0)

2N RESIDENTIAL RETAIL SOCIAL TARIFFS for the 12 months ended 31 March 2022

	Revenue	Number of customers	Average amount per customer
	£'m	000s	£
Number of residential customers on social tariffs			
Residential water only social tariffs		9.2	-
Residential wastewater only social tariffs		0.7	-
Residential dual service social tariffs		36.3	-
Number of residential customers not on social tariffs			
Residential water only no social tariffs		761.1	-
Residential wastewater only no social tariffs		67.0	-
Residential dual service no social tariffs		1,080.6	-
Social tariff discount			
Average discount per water only social tariffs customer			230.5
Average discount per wastewater only social tariffs customer			102.0
Average discount per dual service social tariffs customer			111.9
Social tariff cross-subsidy - residential customers			
Total customer funded cross-subsidies for water only social tariffs customers	2.1		
Total customer funded cross-subsidies for wastewater only social tariffs customers	0.1		
Total customer funded cross-subsidies for dual service social tariffs customers	4.1		
Average customer funded cross-subsidy per water only social tariffs customer			2.8
Average customer funded cross-subsidy per wastewater only social tariffs customer			1.1
Average customer funded cross-subsidy per dual service social tariffs customer			3.6
Social tariff cross-subsidy - company			
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	-		
Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers	-		
Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers	-		
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer			-
Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer			-
Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer			-
Social tariff support - willingness to pay			
Level of support for social tariff customers reflected in business plan			2.1
Maximum contribution to social tariffs supported by customer engagement			2.9

20 HISTORIC COST ANALYSIS OF INTANGIBLE FIXED ASSETS for the 12 months ended 31 March 2022

	Residential Retail	Business Retail	Water Resources	Water Network+	Wastewater Network+	Bioresources	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Cost							
At 1 April 2021	35.7	-	-	120.7	0.9	-	157.3
Disposals	-	-	-	-	-	-	-
Additions	2.7	-	-	5.2	-	-	7.9
Adjustments	(1.6)	-	-	(34.4)	-	0.3	(35.7)
Assets adopted at nil cost	-	-	-	-	-	-	-
At 31 March 2022	36.8	-	-	91.5	0.9	0.3	129.5
Amortisation							
At 1 April 2021	(8.8)	-	-	(62.4)	(0.7)	-	(71.9)
Disposals	-	-	-	-	-	-	-
Adjustments	-	-	-	3.1	-	-	3.1
Charge for year	(1.3)	-	-	(7.6)	(0.1)	-	(9.0)
At 31 March 2022	(10.1)	-	-	(66.9)	(0.8)	-	(77.8)
Net book amount at 31 March 2022	26.7	-	-	24.6	0.1	0.3	51.7
Net book amount at 1 April 2021	26.9	-	-	58.3	0.2	-	85.4
Amortisation for year							
Principal services	(1.3)	-	-	(7.6)	(0.1)	-	(9.0)
Third party services	-	-	-	-	-	-	-
Total	(1.3)	-	-	(7.6)	(0.1)	-	(9.0)

The net book value includes £5.1m in respect of assets in the course of construction.

DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

Services supplied to the appointee by associated companies:

Nature of transaction	Company	Turnover of associate	Terms of supply	Value
		£'m		£'m
Holding company charges	NWGL	6.7	No market	2.100
Public liability insurance (deductible infill policy)	Three Rivers Insurance Company Limited (TRICL)	0.4	No market	0.356
Vehicle maintenance and capital finance charge	Vehicle Lease and Service Limited (VLS)	19.4	Competitive letting	13.723
Corporation tax group relief surrendered by regulated business	Caledonian Environmental Levenmouth Treatment Services Limited	10.3	No market	0.427
Corporation tax group relief surrendered by regulated business	Reiver Finance Limited	17.9	No market	0.692
Corporation tax group relief surrendered by regulated business	Northumbrian Water Finance plc	-	No market	0.045

Services supplied by the appointee to associated companies:

Nature of transaction	Company	Turnover of associate	Terms of supply	Value
		£'m		£'m
Sale of materials	AquaGib Limited	14.9	Negotiated	0.096
Rental of garage and service charges	VLS	19.4	Negotiated	0.099
Service charge in compliance with the WROA agreement	Reiver Finance Limited	17.9	No market	0.199
Corporation tax consortium relief surrendered to regulated business	Wave Ltd	-	No market	0.137
UK:UK transfer pricing tax adjustment	Northumbrian Water Finance plc	-	No market	0.045
UK:UK transfer pricing tax adjustment	Northumbrian Water Group Limited	6.7	No market	0.687

Turnover data for all companies relates to the year to 31 March 2022, with the exception of data for VLS which relates to the year to 31 December 2021.

Payment for tax losses transferred between group/associated companies and UK:UK transfer pricing adjustments is calculated as the gross amount of the item multiplied by the corporation tax rate for the year.

Services provided to the non-appointed business:

	Basis of recharge	Value
		£'m
Treatment of imported sludge	The average unit cost per tonne dry solid is calculated using operating costs only and excluding payroll. This gives a unit rate which is more than the incremental cost but less than the income received therefore sharing the benefit of the activity.	-
Treatment of tankered waste	The recharge comprises recovery of operating costs of operator time and sampling and analysis and a charge for the use of appointed business assets, calculated using the Biological and Sludge elements of the trade effluent charge set out in the Company's Wholesale Charges Scheme.	0.951
Other	Other assets are specifically identified to the appropriate business.	-

Information in relation to allocations and apportionments

The appointed and non-appointed businesses operate separate accounting records including sales and purchase ledgers. Revenue, operating costs, assets and liabilities are taken directly from these records.

Revenue is separately recorded between wholesale water and wastewater and household and non-household retail services and no apportionment has been necessary. Operating costs have been allocated between wholesale water and wastewater and household and non-household retail services in accordance with the guidance set out in RAG 4.10.

Overhead costs incurred in the appointed business which relate to the non-appointed business have been allocated using an activity based approach to comply with RAG 5.07.

Interest has been allocated between the appointed and non-appointed businesses on the basis of actual cash balances held by these businesses during the year at market rates. Capital costs and the related depreciation charges are specifically identifiable to the appropriate business and service.

The surrender of tax losses to the non-appointed business recognises that the appointed business has tax losses while the non-appointed business has taxable profits which will be offset within the appointee's tax return.

Borrowings

At 31 March 2022, the appointee's appointed business had the following borrowings issued by associated companies:

Company	Loan type	Maturity date	Interest rate	Balance at 31 March 2022
			%	£'m
Northumbrian Water Finance plc	Fixed rate Eurobond	Feb-23	6.875	349.535
	Fixed rate Eurobond	Apr-33	5.625	344.069
	Index linked Eurobond	Jul-36	2.033	240.291
	Index linked Eurobond	Jan-41	1.6274	95.370
	Index linked Eurobond	Jul-49	1.7118	158.097
	Index linked Eurobond	Jul-53	1.7484	158.099
	Fixed rate Eurobond	Jan-42	5.125	342.597
	Fixed rate Eurobond	Oct-26	1.625	298.823
	Fixed rate Eurobond	Oct-27	2.375	298.191
	Index linked Private Placement	Oct-39	CPI + 0.242	106.337
Northumbrian Water Group Limited	Overnight borrowing	On demand	1.75	58.100
VLS	Lease	Various	5.5	12.200

At 31 March 2022, the appointee's non appointed business had the following loan issued to an associated company:

Company	Loan type	Maturity date	Interest rate	Balance at 31 March 2022
			%	£'m
Bakethin Holdings Limited	Variable	Jan-34	SONIA minus 39bp	1.865

Dividends paid

During the year, the following ordinary dividends were paid by NWL to NWGL, its immediate parent company:

Ordinary dividends paid:	**2021/22 £m**	**2020/21 £m**
Final dividend for the year ended 31 March 2021	123.3	-
Interim dividend for the year ended 31 March 2022	58.2	-
Appointed business	**181.5**	**-**

No dividends were paid in the prior year.

In addition, a special dividend of £159.0m was paid from the non-appointed business for the purpose of settling a legacy intercompany loan arrangement between the non-appointed business and NWGL.

After the balance sheet date, the Board approved a final dividend of £55.4m for the year ended 31 March 2022.

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 have also had 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.

Application of Policy

Final dividend for the year ended 31 March 2021

The Board approved the payment of a final dividend of £123.3m in respect of the year ended 31 March 2021. Prior to this payment, no dividends had been paid in respect of the years ended 31 March 2020 or 31 March 2021, reflecting the impact of the PR19 FD and the uncertainty surrounding the CMA redetermination process and the Covid-19 pandemic. In approving the £123.3m dividend 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, as reported in the 2020/21 APR, levels of customer service and C-MeX performance, positive ongoing employee engagement and payments made under the agreed schedule of contributions for the NWPS.

Interim dividend for the year ended 31 March 2022

During the year, the Board approved the payment of an interim dividend of £58.2m. In reaching this decision, the Board took account of the underlying financial performance of the business, excluding the deferred tax restatement, and the Company's updated five year plan which remained compatible with investment grade credit ratings. The Board also took into account the principal risks facing the business, strong performance against the majority of regulatory ODI commitments, continued high levels of customer service and positive ongoing employee engagement.

Final dividend for the year ended 31 March 2022

After the balance sheet date, the Board approved the payment of a final dividend of £55.4m in respect of the year ended 31 March 2022. In reaching this decision, the Board took account of the underlying financial performance of the business, excluding non-cash movements in respect of the deferred tax restatement, valuation of derivatives and the impact of high inflation on index-linked debt accretion, and the Company's five year plan which remained compatible with investment grade credit ratings. The Board also took into account the principal risks facing the business, continued high levels of customer service, performance against regulatory commitments, as reported elsewhere in this APR, and positive employee engagement.

In considering performance for customers, the Board took account of the full range of performance commitments [reported on page X of the APR] both where the PC was achieved and where performance fell short of the target, noting that the overall performance was a net ODI reward. Areas of positive performance included:

- excellent customer service results on C-MeX (top two in the industry) and D-MeX, along with further extension of affordability support to customers and reduction in number of void properties;
- continued industry-leading performance on interruptions to supply (excluding the exceptional storm Arwen event) and positive outcomes on burst mains and contact levels on appearance, taste and smell of water;
- awarding of 4* EPA, reflecting excellent overall environmental performance; and
- further progress on reducing greenhouse gas emissions towards our objective of being net zero by 2027.

In respect of areas requiring improvement, the Board took account of the action plans being carried out to improve these areas, including:

- the substantial investment to improve water quality and compliance risk index score, working closely with the DWI on a transformation plan;
- additional commitment both in terms of resources and investment to reduce leakage levels; and
- innovative approaches to reduce the causes of sewer flooding, such as the Bin The Wipe campaign, as part of a broader flooding tactical plan.

The Board also considered the significant interruptions to supply resulting from storm Arwen, noting that these were largely caused by power supply failures and recognising the tremendous effort put in by our teams to minimise disruption and return customers to supply as quickly as possible.

The Board is fully aware of, and co-operating with, the ongoing investigations into FFT. These investigations have not concluded and the Board will respond as appropriate in due course.

Guarantees or other forms of security

There were no guarantees or other forms of security provided by the appointee to any associate during the year, other than those relating to amounts borrowed from NWF, outlined above.

Omission of right

There were no omissions by the appointee to exercise any rights which would cause the net assets to decrease.

Waivers

There were no waivers by the appointee of any consideration, remuneration or other payment owed to it by any associated company.

The information in this note has been produced to comply with the requirements of RAG 5.07 Transfer Pricing in the Water Industry and the disclosures required by paragraph 6 of Condition F of the Company's operating licence.

The Directors confirm that, to the best of their knowledge, all transactions with associated companies have been disclosed.

INDEPENDENT AUDITOR'S REPORT TO THE WATER SERVICES REGULATION AUTHORITY (THE WSRA) AND THE DIRECTORS OF NORTHUMBRIAN WATER LIMITED

Opinion

We have audited the sections of Northumbrian Water Limited's Annual Performance Report for the year ended 31 March 2022 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), lines 1F.1 to 1F.3, 1F.5 to 1F.8, 1F.12 to 1F.14, 1F.21 to 1F.22 and 1F.24 to 1F.26 of the statement of financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited lines 1F.4, 1F.9 to 1F.11, 1F.15 to 1F.20 and 1F.23 of the statement of financial flows (table 1F), the Outcome performance table (tables 3A to 3I) or the additional regulatory information in tables 4A to 4U, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10E and 11A.

In our opinion, Northumbrian Water Limited's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.09, RAG 3.13, RAG 4.10 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.13, appendix 2), set out in section 4.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounting Statements below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our 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.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.13, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of international accounting standards in conformity with the requirements of the Companies Act 2006 ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements in section 4 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IASs. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the Regulatory Accounting Statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting 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 financial facilities including availability and access at the balance sheet date, the nature of the facilities, repayment and expiration terms and associated covenants;
- Assessing management's ability to raise funds to finance the £350m bond falling due in February 2023;
- 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 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out in section 4, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.13, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Accounting Statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework[s] that the company operates in, and identified the key laws and regulations that:

- Had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included Regulatory Accounting Guidelines as issued by the WRSA, UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the Regulatory Accounting Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence, regulatory solvency requirements and environmental regulations.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with HMRC and WSRA.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2022 on which we reported on 15 July 2022, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Leeds, United Kingdom
15 July 2022

3A OUTCOME PERFORMANCE - WATER PERFORMANCE COMMITMENTS (FINANCIAL)

Line description	Unit	Performance level - actual	PC met?	Reward/ Penalty	Forecast 2020-25 Reward/ Penalty
				£m	£m
Common PCs - Water (Financial)					
Water quality compliance (CRI)	number	6.36	No	-6.078	-20.729
Water supply interruptions	hh:mm:ss	00:11:45	No	-5.770	-1.748
Leakage NW region	%	0.1	No	-0.683	-1.820
Leakage ESW region	%	3.2	No	-0.054	-2.430
Per capita consumption	%	-4.7	No	0.000	-10.771
Mains repairs	number	110.9	Yes	1.411	4.263
Unplanned outage	%	4.57	Yes	0.000	0.000
Bespoke PCs - Water and Retail (Financial)					
Visible leak repair time	nr	6.7	Yes	0.339	0.000
Voids	%	3.53	Yes	1.333	5.223
Interruptions to supply greater than 12 hours	nr	5,771	No	-17.530	-16.348
Discoloured water contacts	nr	8.42	Yes	1.168	4.660
Taste and smell contacts	nr	1.89	Yes	0.158	1.493
Event Risk Index	nr	289.699	No	-0.072	-0.072
Interruptions to supply between one and three hours	%	92.5	Yes	0.321	1.185
Abstraction incentive mechanism (AIM)	nr	N/A	-	0.000	0.000
Water environment improvements	nr	34.6	Yes	0.189	1.522
Greenhouse Gas Emissions	tCO2e	46,492	Yes	7.646	31.416
Delivery of water resilience enhanced programme	%	12.8	Yes	0.000	0.000
Delivery of lead enhancement programme	%	2.8	No	0.000	0.000
Delivery of smart water metering enhancement programme	%	11.8	No	0.000	0.000
Delivery of cyber resilience enhancement programme	%	53.6	Yes	0.000	0.000

3B OUTCOME PERFORMANCE - WASTEWATER PERFORMANCE COMMITMENTS (FINANCIAL)

Line description	Unit	Performance level - actual	PC met?	Reward/ Penalty	Forecast 2020-25 Reward/ Penalty
				£m	£m
Common PCs - Wastewater (Financial)					
Internal sewer flooding	No. of incidents per 10,000 connections	1.84	No	-0.530	-2.372
Pollution incidents	Pollution incidents per 10,000 km of sewer length	22.98	Yes	0.227	8.154
Sewer collapses	No. of sewer collapses per 1,000 km of all sewers	8.71	Yes	0.000	0.000
Treatment works compliance	%	98.03	No	-0.579	-0.579
Bespoke PCs - Wastewater (Financial)					
Sewer blockages	nr	11,991	No	-0.883	-1.502
External sewer flooding	nr	3,454	No	-1.649	-10.026
Repeat sewer flooding	nr	23	Yes	1.157	3.692
Bathing water compliance	%	97.06	Yes	0.000	0.000
Delivery wastewater resilience enhancement programme	nr	39	Yes	0.000	0.000
Water Industry National Environment Programme	nr	347	No	0.000	0.000
Delivery of Howdon STW enhancement	months	0	Yes	0.000	0.000

3C CUSTOMER MEASURE OF EXPERIENCE (C-MEX) TABLE

Item	Unit	Value
Annual customer satisfaction score for the customer service survey	Number	83.10
Annual customer satisfaction score for the customer experience survey	Number	85.82
Annual C-MeX score	Number	84.46
Annual net promoter score	Number	47.50
Total household complaints	Number	13,478
Total connected household properties	Number	2,032,882
Total household complaints per 10,000 connections	Number	66.300
Confirmation of communication channels offered	TRUE or FALSE	TRUE

3D DEVELOPER SERVICES MEASURE OF EXPERIENCE (D-MEX) TABLE

Item	Unit	Value
Qualitative component annual results	Number	79.21
Quantitative component annual results	Number	97.92
D-MeX score	Number	88.56
Developer services revenue (water)	£m	19.416
Developer services revenue (wastewater)	£m	3.311

3E OUTCOME PERFORMANCE - NON FINANCIAL PERFORMANCE COMMITMENTS

Line description	Unit	Performance level - actual	PCL met?
Common			
Risk of severe restrictions in a drought	%	0.0	Yes
Priority services for customers in vulnerable circumstances - PSR reach	%	3.5	No
Priority services for customers in vulnerable circumstances - Attempted contacts	%	93.4	Yes
Priority services for customers in vulnerable circumstances - Actual contacts	%	40.2	Yes
Risk of sewer flooding in a storm	%	16.11	Yes
Bespoke PCs			
Satisfaction of Customers who receive additional non-financial support	nr	8.7	Yes
Awareness of additional non-financial support	%	45	No
Response time to written complaints	nr	9.97	No
Customers' perception of trust	nr	8.7	No
Percentage of households in water poverty	%	9.61	Yes
Gap sites	%	64.3	No
Bioresources	%	100	Yes
Satisfaction of Customers who receive additional financial support	nr	9.2	Yes
Awareness of additional financial support	%	38	No
British Standards Institution Award for Inclusive Services	text	Maintained	Yes
NWL Independent value for money survey	nr	8.2	No
WINEP Delivery	text	Met	Yes
Delivery of DWMPs	%	0	Yes

3H SUMMARY INFORMATION ON OUTCOME DELIVERY INCENTIVE PAYMENTS

Line description	Initial calculation of performance payments (excluding CMEX and DMEX)
	£m (2017-18 prices)
Initial calculation of in period revenue adjustment by price control	
Water resources	0.86
Water network plus	-23.35
Wastewater network plus	0.49
Bioresources (sludge)	0.22
Residential retail	1.90
Business retail	0.00
Dummy control	0.00
Initial calculation of end of period revenue adjustment by price control	
Water resources	0.00
Water network plus	-1.94
Wastewater network plus	0.00
Bioresources (sludge)	0.00
Residential retail	0.00
Business retail	0.00
Dummy control	0.00
Initial calculation of end of period RCV adjustment by price control	
Water resources	0.00
Water network plus	0.00
Wastewater network plus	0.00
Bioresources (sludge)	0.00
Residential retail	0.00
Business retail	0.00
Dummy control	0.00

Additional Regulatory Information

This section contains additional regulatory information required by RAG 3.13.

However, some tables have not been included from this report either because their size or because of the technical nature of their content. These tables, which are listed below, can be found on our website, alongside this report.

4B	Analysis of debt
4L	Enhancement expenditure – water resources and water network+
4M	Enhancement expenditure – wastewater network+ and bioresources
4Q	Developer services – Non-financial information
4R	Properties, customers and population – non-financial information
5A	Water resources – asset and volumes data
5B	Water resources - operating cost analysis
6A	Raw water transport, raw water storage, and water treatment data
6B	Treated water distribution – assets and operations
6C	Water network+ – mains, communication pipes and other data
6D	Demand management – metering and leakage activities
6E	Leakage activity detailed analysis
6F	WRMP annual reporting on delivery - non-leakage activities
7A	Wastewater network+ – functional expenditure
7B	Wastewater network+ – large sewage treatment works
7C	Wastewater network+ – sewer and volume data
7D	Wastewater network+ – sewage treatment works data
7E	Wastewater network+ – energy consumption and other data
7F	Wastewater network+ - WINEP phosphorus removal scheme costs and cost drivers
8A	Bioresources – sludge data
8B	Bioresources – operating expenditure analysis
8C	Bioresources – energy and liquors analysis
8D	Bioresources – sludge treatment and disposal data
11A	Operational greenhouse gas emissions reporting

4A WATER BULK SUPPLY INFORMATION for the 12 months ended 31 March 2022

	Volume	Operating costs	Revenue
	Ml	£m	£m
Bulk supply exports			
(NESBWE1) Affinity Water (Three Valleys)	-	-	-
(NESBWE2) Anglian Water (Fairstead)	-	-	-
(NESBWE3) Anglian Water (Fuller Street)	-	-	-
(NESBWE4) Anglian Water (Hogwells)	-	-	-
(NESBWE5) Anglian Water (Layer)	-	-	0.1
(NESBWE6) Anglian Water (Maldon)	0.1	0.1	0.2
(NESBWE9) United Utilities Water	0.2	0.2	0.2
(NESBWE11) Anglian Water (Stour - Tiptree)	0.9	0.7	0.9
(NESBWE12) Leep Utilities - Barking	0.3	0.2	0.3
(NESBWE13) Anglian Water (Woods Meadow Oulton)	0.1	-	0.1
(NESBWE14) Thames Water	-	-	1.5
(NESBWE15) Albion Water (Five Oaks)	-	-	0.1
(NESBWE17) Anglian Water (2 Sisters Buxted Chickens)	0.1	0.1	0.1
(NESBWE18) IWNL - Throckley	-	-	-
(NESBWE19) IWNL (Malyon's Lane)	-	-	-
(NESBWE25) IWNL - River View - Maldon Road	-	-	-
(NESBWE24) LEEP - Conrad Road Witham	-	-	-
(NESBWE21) Marsh Road, Burnham	-	-	-
(NESBWE20) IWNL (Limebrook Way)	-	-	-
(NESBWE21) IWNL (Naisberry Farm)	-	-	-
(NESBWE22) IWNL (Lambton Park)	-	-	-
(NESBWE23) IWNL - Chester Road, Pennywell	-	-	-
Total bulk supply exports	1.7	1.3	3.5
Bulk supply imports			
(NESBWI2) Anglian Water (Cressing)	310.0	0.3	-
(NESBWE14) Thames Water	31,000.0	1.7	-
(NESVW13) - UUW	0.7	-	-
(NESBWI3) Anglian Water (Hartismere)	-	-	-
	31,310.7	2.0	-

4C IMPACT OF PRICE CONTROL PERFORMANCE TO DATE ON RCV for the 12 months ended 31 March 2022

	12 months ended 31 March 2022				Price control period to date			
	Water resources	Water network+	Wastewater network+	Bioresources	Water resources	Water network+	Wastewater network+	Bioresources
Totex (net of business rates, abstraction licence fees and grants and contributions)	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Final determination allowed totex (net of business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	25.1	270.5	178.4	16.7	49.7	520.0	331.6	32.9
Actual totex (excluding business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	42.4	245.6	188.8	3.4	75.3	480.1	354.8	6.2
Transition expenditure	-	-	-	-	-	-	-	-
Disallowable costs	-	(0.9)	(0.4)	-	0.2	4.2	2.8	0.2
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	42.4	246.5	189.2	3.4	75.1	475.9	352.0	6.0
Variance	17.3	(24.0)	10.8	(13.3)	25.4	(44.1)	20.4	(26.9)
Variance due to timing of expenditure	11.2	(26.3)	(16.0)	(8.7)	19.4	(46.4)	(6.3)	(8.7)
Variance due to efficiency	6.1	2.3	26.8	(4.6)	6.0	2.3	26.7	(18.2)
Customer cost sharing rate - outperformance	55.00%	55.00%	55.00%	0.00%	55.00%	55.00%	55.00%	0.00%
Customer cost sharing rate - underperformance	45.00%	45.00%	45.00%	0.00%	45.00%	45.00%	45.00%	0.00%
Customer share of totex overspend	2.7	1.0	12.1	-	2.7	1.0	12.0	-
Customer share of totex underspend	-	-	-	-	-	-	-	-
Company share of totex overspend	3.4	1.3	14.7	-	3.3	1.3	14.7	-
Company share of totex underspend	-	-	-	(4.6)	-	-	-	(18.2)
Totex - business rates and abstraction licence fees								
Final determination allowed totex - business rates and abstraction licence fees	47.2	27.6	7.2	1.5	92.7	54.2	14.1	2.9
Actual totex - business rates and abstraction licence fees	47.7	27.0	4.7	1.0	95.4	54.0	11.7	2.4
Variance - business rates and abstraction licence fees	0.5	(0.6)	(2.5)	(0.5)	2.7	(0.2)	(2.4)	(0.5)
Customer cost sharing rate - business rates	84.06%	91.68%	90.00%	90.00%	83.58%	103.46%	90.00%	90.00%
Customer cost sharing rate - abstraction licence fees	82.67%	75.00%	75.00%	75.00%	82.67%	75.00%	75.00%	75.00%
Customer share of totex over/underspend - business rates and abstraction licence fees	0.4	(0.6)	(2.3)	(0.4)	2.3	(0.2)	(2.2)	(0.4)
Company share of totex over/underspend - business rates and abstraction licence fees	0.1	-	(0.2)	(0.1)	0.4	-	(0.2)	(0.1)

4C IMPACT OF PRICE CONTROL PERFORMANCE TO DATE ON RCV for the 12 months ended 31 March 2022 (continued)

	12 months ended 31 March 2022				Price control period to date			
	Water resources	Water network+	Wastewater network+	Bioresources	Water resources	Water network+	Wastewater network+	Bioresources
Totex not subject to cost sharing								
Final determination allowed totex - not subject to cost sharing	5.2	3.7	-	-	10.6	7.8	0.6	-
Actual totex - not subject to cost sharing	8.9	13.2	1.4	-	17.8	20.7	0.9	-
Variance - 100% company allocation	3.7	9.5	1.4	-	7.2	12.9	0.3	-
Total customer share of totex over/under spend	3.2	0.5	9.8	(0.5)	5.0	0.8	9.9	(0.5)
RCV								
Total customer share of totex over/under spend	3.2	0.5	9.8	(0.5)	5.0	0.8	9.9	(0.5)
PAYG rate	89.41%	53.23%	42.99%	40.89%	89.41%	53.23%	42.99%	40.89%
RCV element of cumulative totex over/underspend	0.3	0.2	5.6	(0.3)	0.5	0.4	5.6	(0.3)
Adjustment for ODI outperformance payment or underperformance payment					-	-	-	-
Green recovery					-	-	-	
RCV determined at FD at 31 March					318.3	2,006.0	2,070.1	153.5
Projected 'shadow' RCV					318.8	2,006.4	2,075.7	153.2

WHOLESALE TOTEX COMPARISON TO FD ALLOWANCE

Totex (net of business rates, abstraction licence fees and grants and contributions)

Actual totex in 2021/22 across all price controls was £9.2m lower then the FD allowance. This has been allocated as £39.8m underspend due to timing of expenditure, representing capex, and £30.6m overspend relating to 'efficiency', representing opex.

The cumulative position for the first two years of the price control period is a total underspend of £25.2m, allocated on a similar basis as £42.0m underspend due to timing and £16.8m overspend relating to efficiency.

The underspend due to timing is principally due to slower progress on enhancement projects. Enhancement costs and allowances are reported in tables 4L and 4M of our APR, which can be found on our website. However, in summary, for the first two years of the price control period:

- Water resources and water network+ enhancement expenditure is £53.1m lower than allowance;
- Wastewater network+ and bioresources enhancement expenditure is £21.8m lower than allowance.

The underspend is due to the extended lead times on projects exacerbated by the Covid-19 pandemic. Underlying capital maintenance investment is higher then FD for the first two years.

The overspend on operating costs is due primarily to unprecedented increase in energy costs during the year.

Totex - business rates and abstraction licence fees

Actual totex in 2021/22 was £3.1m lower than the FD allowance. This primarily relates to some rates rebates on wastewater treatment sites for both the 2021 and 2017 valuations which were settled during the year after extended discussions with the Valuation Office Agency.

The original Ofwat determination set consistent cost sharing rates for abstraction and rates variances. However, our CMA redetermination amended teh sharing rates for different elements of these costs. In order for the sharing rate calculation to work correctly, a hybrid sharing rate has been used and reported in the row for 'Customer cost sharing rate – business rates' in line with Ofwat guidance. The individual rates are shown below

	12 months ended 31 March 2022				**Price control period to date**			
	Water resources	Water network plus	Wastewater network plus	Bio-resources	Water resources	Water network plus	Wastewater network plus	Bio-resources
Customer cost sharing rate - abstraction	82.67%	75.00%	75.00%	75.00%	82.67%	75.00%	75.00%	75.00%
Customer cost sharing rate - business rates	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%
Customer cost sharing rate - weighted ave	84.06%	91.68%	90.00%	90.00%	83.58%	103.46%	90.00%	90.00%

Shadow RCV

Actual RCV at 31 March 2022, as published by Ofwat, was £4,547.9m.

The projected 'shadow' RCV, adjusted for the customer share of cost variances was £4,554.1m, the small increase reflecting the customer share of overspends due to increased energy costs.

Disallowable costs

Costs classified as disallowable are:

- pollution incidents (EA enforcement undertakings);
- Section 74 fines and fixed penalty notices;
- compensation claims; and
- the reversal of the prior year provision for innovation fund costs, in accordance with Ofwat guidance in IN 22/01 Expectations for monopoly company annual performance reporting 2021-22.

Recharges in respect of 'principal use' of assets

These relate to assets which are shared across more than one business unit, which mainly relate to IT systems and office buildings. The capital is allocated to Water Network+ as the 'principal user' and an appropriate proportion recharged to the other business units, including retail. The values are reported on table 2A.

4D TOTEX ANALYSIS: WATER RESOURCES AND WATER NETWORK+ for the 12 months ended 31 March 2022

		Network+				
	Water resources	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Operating expenditure						
Base operating expenditure	69.4	5.7	1.7	53.1	96.4	226.3
Enhancement operating expenditure	1.2	-	-	0.4	0.5	2.1
Developer services operating expenditure	-	-	-	-	0.2	0.2
Total operating expenditure excluding third party services	70.6	5.7	1.7	53.5	97.1	228.6
Third party services	8.9	1.3	-	0.4	2.2	12.8
Total operating expenditure	79.5	7.0	1.7	53.9	99.3	241.4
Grants and contributions - operating expenditure	-	-	-	-	-	-
Capital expenditure						
Base capital expenditure	16.2	0.1	-	44.0	50.6	110.9
Enhancement capital expenditure	3.1	0.1	0.1	10.6	13.9	27.8
Developer services capital expenditure	-	-	-	-	20.8	20.8
Total gross capital expenditure (excluding third party)	19.3	0.2	0.1	54.6	85.3	159.5
Third party services	-	-	-	-	-	-
Total gross capital expenditure	19.3	0.2	0.1	54.6	85.3	159.5
Grants and contributions - capital expenditure	-	-	-	-	(16.2)	(16.2)
Net totex	98.8	7.2	1.8	108.5	168.4	384.7
Cash expenditure						
Pension deficit recovery payments	0.5	0.1	-	2.9	7.6	11.1
Other cash items	-	-	-	-	-	-
Totex including cash items	99.3	7.3	1.8	111.4	176.0	395.8
Atypical expenditure						
Item 1	-	-	-	-	-	-
Total atypical expenditure	-	-	-	-	-	-

4E TOTEX ANALYSIS: WASTEWATER NETWORK+ AND BIORESOURCES for the 12 months ended 31 March 2022

	Network+ Sewage collection			Network+ Sewage treatment		Bioresources			
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Operating expenditure									
Base operating expenditure	14.6	16.6	9.0	55.8	4.4	4.1	(3.1)	1.3	102.7
Enhancement operating expenditure	0.8	1.2	0.7	0.6	-	-	-	-	3.3
Developer services operating expenditure	0.3	-	-	-	-	-	-	-	0.3
Total operating expenditure excluding third party services	15.7	17.8	9.7	56.4	4.4	4.1	(3.1)	1.3	106.3
Third party services	0.1	0.1	-	-	-	-	-	-	0.2
Total operating expenditure	15.8	17.9	9.7	56.4	4.4	4.1	(3.1)	1.3	106.5
Grants and contributions - operating expenditure	-	-	-	-	-	-	-	-	-
Capital expenditure									
Base capital expenditure	11.4	18.9	10.1	28.4	-	-	2.1	-	70.9
Enhancement capital expenditure	0.6	1.1	0.6	21.7	-	-	-	-	24.0
Developer services capital expenditure	0.3	0.5	0.3	-	-	-	-	-	1.1
Total gross capital expenditure (excluding third party)	12.3	20.5	11.0	50.1	-	-	2.1	-	96.0
Third party services	-	-	-	-	-	-	-	-	-
Total gross capital expenditure	12.3	20.5	11.0	50.1	-	-	2.1	-	96.0
Grants and contributions - capital expenditure	(0.9)	(1.5)	(0.8)	-	-	-	-	-	(3.2)
Net totex	27.2	36.9	19.9	106.5	4.4	4.1	(1.0)	1.3	199.3
Cash expenditure									
Pension deficit recovery payments	2.1	0.4	-	2.5	-	-	0.4	-	5.4
Other cash items	-	-	-	-	-	-	-	-	-
Totex including cash items	29.3	37.3	19.9	109.0	4.4	4.1	(0.6)	1.3	204.7
Atypical expenditure									
Item 1	-	-	-	-	-	-	-	-	-
Total atypical expenditure	-	-	-	-	-	-	-	-	-

4F & 4G MAJOR PROJECT EXPENDITURE FOR WHOLESALE WATER AND WASTEWATER

NWL does not have any Major Projects as defined by RAG4.10.

4H FINANCIAL METRICS for the 12 months ended 31 March 2022

	Units	Current year	AMP to date
Financial indicators			
Net debt	£m	3,170.7	-
Regulatory equity	£m	1,377.2	-
Regulatory gearing	%	69.7%	-
Post tax return on regulatory equity	%	3.9%	-
RORE (return on regulatory equity)	%	3.2%	2.8%
Dividend yield	%	13.2%	-
Retail profit margin - Household	%	0.2%	-
Retail profit margin - Non household	%	0.0%	-
Credit rating - Fitch	Text	n/a	-
Credit rating - Moody's	Text	Baa1 (Stable)	-
Credit rating - Standard and Poor's	Text	BBB+ (Negative)	-
Return on RCV	%	4.4%	-
Dividend cover	dec	(0.8)	-
Funds from operations (FFO)	£m	200.2	-
Interest cover (cash)	dec	3.1	-
Adjusted interest cover (cash)	dec	0.7	-
FFO/Net debt	dec	0.1	-
Effective tax rate	%	(20.5%)	-
RCF	£m	18.7	-
RCF/Net debt	dec	-	-
Borrowings			
Proportion of borrowings which are fixed rate	%	56.6%	-
Proportion of borrowings which are floating rate	%	6.0%	-
Proportion of borrowings which are index linked	%	37.4%	-
Proportion of borrowings due within 1 year or less	%	19.1%	-
Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.9%	-
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	17.5%	-
Proportion of borrowings due in more than 5 years but no more than 20 years	%	52.4%	-
Proportion of borrowings due in more than 20 years	%	10.2%	-

An explanation of RORE performance compared to the allowance in the FD is provided in the commentary to table 1F.

4I FINANCIAL DERIVATIVES for the 12 months ended 31 March 2022

	Nominal value by maturity (net) at 31 March				Total value at 31 March		Total accretion at 31 March	Interest rate (weighted average for 12 months to 31 March 2021)	
	0 to 1 years	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market		Payable	Receivable
	£'m	£'m	£'m	£m	£'m	£'m	£'m	%	%
Interest rate swap (sterling)									
Floating to fixed rate	-	-	150.0	-	150.0	0.3	-	2.36%	1.24%
Floating from fixed rate	-	-	-	-	-	-	-	0.00%	0.00%
Floating to index linked	-	-	-	-	-	-	-	0.00%	0.00%
Floating from index linked	-	-	-	-	-	-	-	0.00%	0.00%
Fixed to index-linked	-	-	150.0	100.0	250.0	(78.4)	47.3	8.27%	2.17%
Fixed from index-linked	-	-	-	-	-	-	-	0.00%	0.00%
Index-linked to index-linked	-	-	-	-	-	-	-	0.00%	0.00%
Total	-	-	300.0	100.0	400.0	(78.1)	47.3		
Forward currency contracts									
Forward currency contracts USD	1.8	2.0	2.1	-	5.9	0.1	-		
Total	1.8	2.0	2.1	-	5.9	0.1	-		
Other financial derivatives	13.7	0.3	-	-	14.0	12.4	-		
Total financial derivatives	15.5	2.3	302.1	100.0	419.9	(65.6)	47.3		

For the floating to fixed rate swaps, the interest rate receivable has been calculated using a 3 month sterling SONIA rate of 0.8376%, being the market rate for the last day of 2021/22.

For the fixed to index-linked swaps, the interest rate payable has been calculated using a reference RPI of 8.96%, being the published RPI for March 2022. Both swaps reported in this line are set at RPI minus a fixed percentage.

Other financial derivatives are power forward contracts.

4J BASE EXPENDITURE ANALYSIS: WATER RESOURCES AND WATER NETWORK+ for the 12 months ended 31 March 2022

		Water network+				
	Water resources	Raw water distribution	Raw water storage	Water treatment	Treated water distribution	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Operating expenditure						
Power	12.8	2.3	-	4.8	20.6	40.5
Income treated as negative expenditure	(0.4)	-	-	-	-	(0.4)
Bulk supply	0.9	-	-	-	-	0.9
Renewals expensed in year (infrastructure)	0.5	-	-	-	1.4	1.9
Renewals expensed in year (non-infrastructure)	0.1	-	-	0.7	3.1	3.9
Other operating expenditure	7.9	0.5	1.7	43.3	51.2	104.6
Local authority and Cumulo rates	4.2	2.9	-	4.0	19.7	30.8
Service Charges						
Canal & River Trust abstraction charges/ discharge consents	0.4	-	-	-	-	0.4
Environment Agency / NRW abstraction charges/ discharge consents	43.0	-	-	0.3	-	43.3
Other abstraction charges/ discharge consents	-	-	-	-	-	-
Other operating expenditure						
Costs associated with Traffic Management Act	-	-	-	-	0.4	0.4
Costs associated with lane rental schemes	-	-	-	-	-	-
Statutory water softening	-	-	-	-	-	-
Total base operating expenditure	69.4	5.7	1.7	53.1	96.4	226.3
Capital expenditure						
Maintaining the long term capability of the assets - infra	3.8	-	-	-	28.9	32.7
Maintaining the long term capability of the assets - non-infra	12.4	0.1	-	44.0	21.7	78.2
Total base capital expenditure	16.2	0.1	-	44.0	50.6	110.9
Traffic Management Act						
Projects incurring costs associated with Traffic Management Act (nr)	-	-	-	-	9,115.0	9,115.0

4K BASE EXPENDITURE ANALYSIS: WASTEWATER NETWORK+ AND BIORESOURCES for the 12 months ended 31 March 2022

	Wastewater network+				Bioresources				
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Sludge Transport	Sludge Treatment	Sludge Disposal	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Operating expenditure									
Power	2.4	3.9	2.1	18.1	3.0	1.2	4.9	-	35.6
Income treated as negative expenditure	-	-	-	-	-	-	(17.9)	-	(17.9)
Bulk discharge	-	-	-	-	-	-	-	-	-
Renewals expensed in year (infrastructure)	-	-	-	-	-	-	-	-	-
Renewals expensed in year (non-infrastructure)	0.2	0.3	0.2	0.7	-	-	0.5	-	1.9
Other operating expenditure	10.0	12.4	6.7	30.6	1.4	2.9	8.4	1.3	73.7
Local authority and Cumulo rates	0.2	-	-	4.5	-	-	1.0	-	5.7
Service Charges									
Canal & River Trust discharge consents	-	-	-	-	-	-	-	-	-
Environment Agency / NRW discharge consents	1.8	-	-	1.9	-	-	-	-	3.7
Other discharge charges / permits	-	-	-	-	-	-	-	-	-
Other expenditure									
Costs associated with Traffic Management Act	-	-	-	-	-	-	-	-	-
Costs associated with lane rental schemes	-	-	-	-	-	-	-	-	-
Costs associated with Industrial Emissions Directive	-	-	-	-	-	-	-	-	-
Total base operating expenditure	14.6	16.6	9.0	55.8	4.4	4.1	(3.1)	1.3	102.7
Capital expenditure									
Maintaining the long term capability of the assets - infra	9.4	15.6	8.3	0.1	-	-	-	-	33.4
Maintaining the long term capability of the assets - non-infra	2.0	3.3	1.8	28.3	-	-	2.1	-	37.5
Total base capital expenditure	11.4	18.9	10.1	28.4	-	-	2.1	-	70.9
Operating expenditure (AMP 7 shadow reported values)									
Power	2.4	3.9	2.1	18.1	3.0	1.2	4.9	-	35.6
Income treated as negative expenditure	-	-	-	-	-	-	(17.9)	-	(17.9)
Traffic Management Act									
Projects incurring costs associated with Traffic Management Act (nr)	747.0	-	-	-	-	-	-	-	747.0

4N DEVELOPER SERVICES EXPENDITURE: WATER RESOURCES AND WATER NETWORK+ for the 12 months ended 31 March 2022

	Water network+		
	Treated water distribution		
	Capex	Opex	Totex
	£'m	£'m	£'m
New connections	8.9	-	8.9
Requisition mains	6.3	-	6.3
Infrastructure network reinforcement	2.7	-	2.7
s185 diversions	1.5	-	1.5
Other price controlled activities	-	0.2	0.2
Total developer services expenditure	19.4	0.2	19.6

40 DEVELOPER SERVICES EXPENDITURE: WASTEWATER NETWORK+ AND BIORESOURCES for the 12 months ended 31 March 2022

	Wastewater network+					
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Sludge liquor treatment	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Capex						
New connections	-	-	-	-	-	-
Requisition sewers	0.1	0.1	-	-	-	0.2
Infrastructure network reinforcement	-	-	-	-	-	-
s185 diversions	-	0.1	-	-	-	0.1
Other price controlled activities	0.2	0.3	0.2	-	-	0.7
Total total developer services capex	0.3	0.5	0.2	-	-	1.0
Opex						
New connections	-	-	-	-	-	-
Requisition sewers	-	-	-	-	-	-
Infrastructure network reinforcement	-	-	-	-	-	-
s185 diversions	-	-	-	-	-	-
Other price controlled activities	0.1	-	-	-	-	0.1
Total developer services opex	0.1	-	-	-	-	0.1
Totex						
Total developer services expenditure	0.4	0.5	0.2	-	-	1.1

4P EXPENDITURE ON NON-PRICE CONTROL DIVERSIONS for the 12 months ended 31 March 2022

	Water resources	Water network+	Wastewater network+	Total
	£'m	£'m	£'m	£'m
Costs associated with NSWRA diversions	-	1.4	-	1.4
Costs associated with other non-price control diversions	-	-	-	-
Other developer services non-price control totex	-	-	0.3	0.3
Developer services non-price control totex	-	1.4	0.3	1.7

9A INNOVATION COMPETITION

	Current year
Allowed	£'m
Allocated innovation competition fund price control revenue	2.5
Revenue collected for the purposes of the innovation competition	
Innovation fund income from customers	2.5
Income from customers to fund innovation projects the company is leading on	-
Income from other water companies to fund innovation projects the company is leading on	0.4
Income from customers that is transferred to other companies as part of the innovation fund	0.1

	Total amount of funding awarded to the lead company through the innovation fund	Forecast expenditure on innovation fund projects in year (excl 10% partnership contribution)	Actual expenditure on innovation fund projects in year (excl 10% partnership contribution)	Difference between actual and forecast expenditure	Forecast project lifecycle expenditure on innovation fund projects (excl 10% partnership contribution)	Cumulative actual expenditure on innovation fund projects (excl 10% partnership contribution)	Difference between actual and forecast expenditure	In year expenditure on innovation projects funded by shareholders	Cumulative expenditure on innovation projects funded by shareholders
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Innovation project 1 - Organics	0.2	0.2	0.2	-	0.2	0.2	-	-	-
Innovation project 2 - UKWIR CoE	0.3	0.3	0.3	-	0.3	0.3	-	-	-
Innovation project 15	0.5	0.5	0.5	-	0.5	0.5	-	-	-

Administration charge for innovation partner	-

-

Innovation Competition

As part of PR19 Ofwat established its Innovation Fund, the purpose of which is to grow the water sector's capacity to innovate enabling it to better meet the evolving needs of customers, society and the environment. Our revenue allowance includes £2.5m per annum, which is recovered through customer charges, to contribute towards the Innovation Fund.

To date there have been three rounds of competition, with four sets of projects awarded. However, only the projects from the 'Innovation in Water Challenge' were launched in 2021/22. NWL was the project lead on two projects, Organics Ammonia and UKWIR Centre of Excellence. as reported in the table above.

Income received from the Innovation fund for these two projects was £475k and the NWL expenditure was £475k. This cost has been included in the totex tables 4D and 4E but reported as 'totex not subject to cost sharing' in table 4C. The company contribution of £25k is not in the appointed business expenditure.

Innovation fund income received from customers was £2.526m (20/21 £2.512m). £0.099m has been transferred to other companies for innovation projects that they are leading on. £0.028m has been allocated to the two projects above that NWL is leading on. There was also a payment to Ofwat of £0.116m for the innovation partner administration charge.

£m	**20/21**	**21/22**	**Cumulative**
Income from customers (price control)	2.512	2.526	5.038
Innovation project cost contributions	0.000	-0.128	-0.128
Administration partner costs	0.000	-0.116	-0.116
Net	**2.512**	**2.282**	**4.794**

The net receipt of £4.794m has been accrued in operating costs in the Statutory accounts but removed from the Regulatory accounts, in accordance with Ofwat guidance in IN 22/01 Expectations for monopoly company annual performance reporting 2021-22.

NWL has been successful in obtaining funding for a number of further projects through subsequent competitions. These projects are expected to commence in 2022/23:

- Water Breakthrough Challenge 1 - Fair Water
- Water Breakthrough Challenge 2 : Catalyst - Support for All, SuPR Loofah, Water Quality as a Service (Treatment 2 Tap)
- Water Breakthrough Challenge 2 : Transform - National Leakage Research and Test Centre; Stream.