Northumbrian Water Limited Annual Report and Financial Statements

for the year ended 31 March 2023

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

Registered company number 02366703

Annual Report and Financial Statements
for the year ended 31 March 2023

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

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

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

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

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

Strategic Report

Chairman's statement

For most of our customers, Northumbrian Water Limited (NWL or the Company) is the only available supplier of essential water and wastewater services. The Board therefore recognises that we carry very significant responsibilities and must strive to meet the high expectations of everyone we serve and work with.

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, now and into the future. Together, we have embraced the challenges of an ever-evolving business landscape and the issues facing our industry and formulated strategies that position us to improve standards further, deliver leadership and show support for our regions and communities.

The Board's Statement of our Purpose, Vision and Performance (our Purpose), which is set out on **page 9** reflects the ways in which we strive to achieve this and our Purpose also outlines how the Board sets the Company's aspirations in respect of the services we provide to our customers and other stakeholders, how we are performing against our aspirations and how we structure management rewards to incentivise delivery of these aspirations.

Our customer service continues to remain strong, ranking number one in Ofwat's measure of customer experience, C-MeX. Investing in employees has helped to deliver exceptional customer service results. They are the face of the organisation and the ambassadors of our brand. By providing them with the necessary training, resources, and empowerment, we enable them to go above and beyond in assisting our customers.

It is a primary duty of the Board to balance the interests of all our stakeholders fairly, while meeting our fiduciary duties as directors. Our Purpose sets out our objective of investing prudently and operating efficiently, to provide the essential services our communities rely on for the long term. As Chairman, I believe the Board strikes the required balance very well, assisted by the robust governance arrangements we have in place, which are set out in detail in our Governance report on **page 63**.

At each meeting, the Board has reviewed performance against a balanced scorecard of measures related to five strategic themes: Customer, Environment, Competitiveness, People and Communities in addition to health and safety, financial performance, and other key factors. A more detailed overview of our work and progress on these themes is set out later in this Strategic Report on **page 25**.

Our Chief Executive Officer (CEO), Heidi Mottram, describes in her Review the progress made in the third year of delivering our 2020-25 Business Plan and our performance delivered against the commitments we have made in it. We have confidence in our strong track record and ability to leverage good practice.

Earlier this year we published an update to our 'A Vision for our Coasts and Rivers'. This showed we are on track to deliver on each of the nine pledges we made in 2022 to enhance the water environment in our regions.

As ever, it is our people who are our 'front-line' and NWL's performance depends entirely on their continued engagement, initiative, innovation, and hard work. I would once again like to offer my sincere thanks to all our employees for their dedication and commitment over this year.

Looking ahead

Our Board has been closely involved in developing the PR24 Business Plan, including leading the development of strategy, customer and stakeholder engagement arrangements, and assurance processes. This means providing support to management in deliberating the many detailed matters to be addressed as part of the plan.

We attended customer research panels and the Water Forum and worked with operational teams directly to understand the challenges and views that would shape the plan. We have also provided advocacy and challenge to both the planning process, and in changing the conversation more widely.

Subject to support from Ofwat, the emerging investment programme for the 2025-30 period will be the largest we've ever undertaken, likely to be more than double our programme in the current 2020-25 period. While this scale of investment will bring its challenges, it also provides a great opportunity to make a step change in performance for our customers and positive impact on the environment, in particular reducing storm overflows. We have already started bringing forward this investment to ensure that we are in the best possible place to deliver such a significant programme of work through a major acceleration of work and building the supply chain capacity.

A J Hunter
Chairman

Chief Executive Officer's review

Our vision is to be the national leader in the provision of sustainable water and wastewater services. We are a purpose-led organisation and our purpose shapes all our plans and activities.

We set out ambitious goals for the 2020-25 period, reflecting feedback from our customers, and I am pleased that once again we have been successful in achieving a high proportion of the targets we report in our balanced scorecard.

I am particularly delighted that we are first in the industry for customer service as we always strive to deliver an unrivalled customer experience. We have also continued to deliver good environmental performance with no serious pollution incidents and further reductions in sewer flooding. However, we recognise that customers' expectations are increasing, especially in relation to river and bathing water quality, and we are committed to delivering the nine ambitious pledges we set out in 'A Vision for our Coasts and Rivers' to improve our water environment.

Although our overall performance was strong, we were disappointed to fall short on water quality. We are working closely with the Drinking Water Inspectorate (DWI) and have significantly increased our investment to improve performance in this area to the same level as our customer service performance. I am confident that with our remarkable team, shared vision, right level of investment and relentless pursuit to be the national leader, we will continue to build upon the strong foundation we have laid.

Customer

I am thrilled to be able to say we are the industry leader for customer experience, achieving top place for C-MeX, Ofwat's measure of customer service. This has been the result of a one team effort across our business to deliver world class service to our customers. I am also proud that we were joint top among water and sewerage companies (WASCs) for trust in CCW's Water Matters report.

We also know that it's really important to our customers that we keep our services as affordable as possible. The past three years have seen a period of significant economic upheaval, with the Covid-19 pandemic and high inflation creating a cost of living crisis. As a result we have seen more customers reaching out to us for financial support and have increased the number of customers receiving support by more than 50%.

Our data sharing arrangement with the Department for Work and Pensions (DWP) is just one of the ways in which we're taking proactive steps to identify customers who would benefit from support arrangements. We have clear plans in place to both expand, and increase awareness of, the support we can offer. We remain committed to having zero water poverty in our areas by 2030.

Environment

Our environmental performance remains strong and in North East England we have some of the lowest levels of pollution and cleanest rivers and beaches in the country. However, we know that customers and stakeholders are increasingly concerned about spills from storm overflows into rivers and the sea, and we know we need to do more.

We have recently updated 'A Vision for our Coasts and Rivers' on our website, to set out the progress we have made against the nine pledges we have made in respect of our water environment and our programme of work to 2025 that will help us achieve our goals. We are investing substantial amounts in the current regulatory price period towards reducing our use of storm overflows and upgrading our wastewater network, and are already planning a massive environmental programme of around £1.7bn over the next few years to stop storm overflow spills and improve the environment, adopting nature-based solutions wherever possible.

This isn't the only area where we are making improvements though and I was very pleased that we had no serious category 1 and 2 pollution incidents in 2022. We have achieved further reductions in sewer flooding incidents, continuing our trend of improvement in each year of this price control period. I was delighted that Bin the Wipe, one of our initiatives which has been pivotal to this improvement, has now been adopted across the industry and launched as a national campaign, approved by Parliament.

Water

In discussions with our customers, they consistently tell us their top priority is good quality water and we are in the middle of a five year plan with the DWI to improving drinking water quality across both of our operating regions, involving an increase in our capital investment programme. However, these investments can take a few years to deliver results and we were disappointed to not hit the high standards we aim for in the DWI's Compliance Risk Index measure of water quality, although we have achieved our best performance to date in our customer facing measures of the appearance, taste and smell of water.

Maintaining resilient water supplies is another priority for our customers and work is underway on a £155m investment programme to upgrade and futureproof the water supply network across the south of County Durham and into the Tees Valley. We were also pleased to gain support for the acceleration of investment to improve the resilience of water supplies in our Suffolk operating area.

We had a mixed year weather-wise, with extreme conditions causing problems for our water network. The hot, dry summer saw record-breaking temperatures in mid-July 2022 resulting in a significant increase in burst mains and other asset failures. We then experienced a freeze/thaw event just prior to Christmas which caused further issues. Although we were pleased to achieve our annual leakage reduction target in our water-stressed Essex and Suffolk operating areas, and our Northumbrian operating area, we were unable to drive leakage down sufficiently to meet our three-year average regulatory target in our Northumbrian area, despite increasing resources significantly.

We are continuing to drive innovation in this area and trialled a number of new and exciting technologies and techniques in the year. For example, we introduced a new 'No Dig' method of leakage repair and are now working to scale this up, and we're also leading on the development of a new National Leakage Research and Test Centre.

Innovation

Innovation is one of our core values and we have been working for many years to create a thriving innovative culture. It is always pleasing to see ideas being developed into practical use. One example of this is the National Underground Asset Register, an interactive, digital map of underground pipes and cables, which will revolutionise the way we install, maintain, operate and repair our buried infrastructure. This idea came out of our Innovation Festival in 2018 and we were extremely proud to see this being launched by the Geospatial Commission in April 2023, initially covering North East England, Wales and London ahead of a national roll out over the next two years.

We are open to innovative ideas from any sources and, as well as continuing to have great success through the Ofwat Innovation Fund, we encourage ideas from our own people. One such idea is the use of microalgae to treat industrial effluent and generate biogas. This was successful in our internal InvestQuest competition and we are currently upscaling it for operational use.

Our People and the Communities we serve

I firmly believe that the success of any company lies in the strength of its people, and I am surrounded by a team that embodies our core values and shares a common passion for excellence. We've embedded our TIDE (Together for Inclusion, Diversity and Equity) Strategy over the last year, fostering an environment where everyone's voices are heard, ideas are valued, and diverse viewpoints are respected. We were once again awarded Great Place to Work Certified Employer status, further increasing our already high engagement and trust scores, and our Living Well approach to wellbeing offering has been recognised nationally with several awards.

We've been named the world's 'most ethical' water company for the twelfth time in the World's Most Ethical Companies list, compiled by Ethisphere, and are one of only two UK companies on the list. For the second successive year, we were also the only water company awarded the Good Business Charter, which involves demonstrating good practice across a number of areas including employment practices, environmental responsibility, fair tax and procurement.

Our annual report serves as a testament to our collective achievements, as we have strived to provide safe, clean, and sustainable water solutions to our communities while facing the increasing effects of climate change. The impact of our work extends far beyond numbers and figures; it lies in the positive influence we have on our local economies, where we have achieved our goal of spending 60p in every £1 we spend locally, the environment, and the prosperity of the regions we serve.

Looking forward

We have completed three years of our current five year price review period and have made significant progress towards the ambitious goals we set in Our Plan. We will continue to drive this forward over the coming years, building on our strong foundations in areas such as customer service and environmental performance. Equally we must improve our performance across water quality and leakage and continue to invest in the resilience of our assets, as well as preparing for the challenges of the next period.

Our planning for the period 2025-30 is well advanced, ahead of submission in October of this year. Our business is inherently long term and we are developing our plan in the context of our long term strategy to 2050 and the areas where we will need to make new investment to ensure sustainable water supplies, protecting the local environment, deliver Net Zero and maintain resilience.

We make sure our customers are at the heart of every decision we take and have consulted extensively to ensure we understand what is important to our customers and stakeholders. We know that will be undertaking a huge increase in capital investment, including to address storm overflows, which will need to be funded through a combination of borrowing, shareholder equity and increases in customer bills. Getting the right balance between investing in our services, environmental improvements and the affordability of customer bills is not easy, and it's important to us that the views of our customers inform those decisions.

We are proud of our achievements to date, but we are never complacent and will continue to invest in further improvements over the coming years.

H Mottram

H Mottram CBE
CEO

Business model

OUR PURPOSE

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

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

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

OUR VISION

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

OUR STRATEGIC THEMES

CUSTOMER

ENVIRONMENT

COMPETITIVENESS

PEOPLE

COMMUNITIES

OUR VALUES

CUSTOMER FOCUSED

ONE TEAM

RESULTS DRIVEN

ETHICAL

INNOVATIVE

OUR REPUTATION

Our Purpose

Our Purpose statement sets out a shared understanding of why our company exists. The **Our Purpose** report, published alongside this report, describes performance against a series of progress measures and detailed case studies of how we live this out in practice.

Our Vision

Our Vision sits alongside our Purpose and clearly sets out what we want to achieve, to be the national leader in the provision of sustainable water and wastewater services.

Our Strategic Themes

We aim to deliver our Vision through our five Strategic Themes of Customer, Environment, Competitiveness, People and Communities. We measure our performance using a balanced scorecard across all of these Themes and report this performance on **page 24**.

Our Values

Our Values set out how we behave in order to deliver our Purpose and Vision. These are well recognised and understood across the business.

Our Reputation

How we perform and how we behave underpins our reputation which is of great importance. Building trust among our customers and wider stakeholders is crucial to achieving our Purpose.

Business overview

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

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

We employ over **3,000** people.

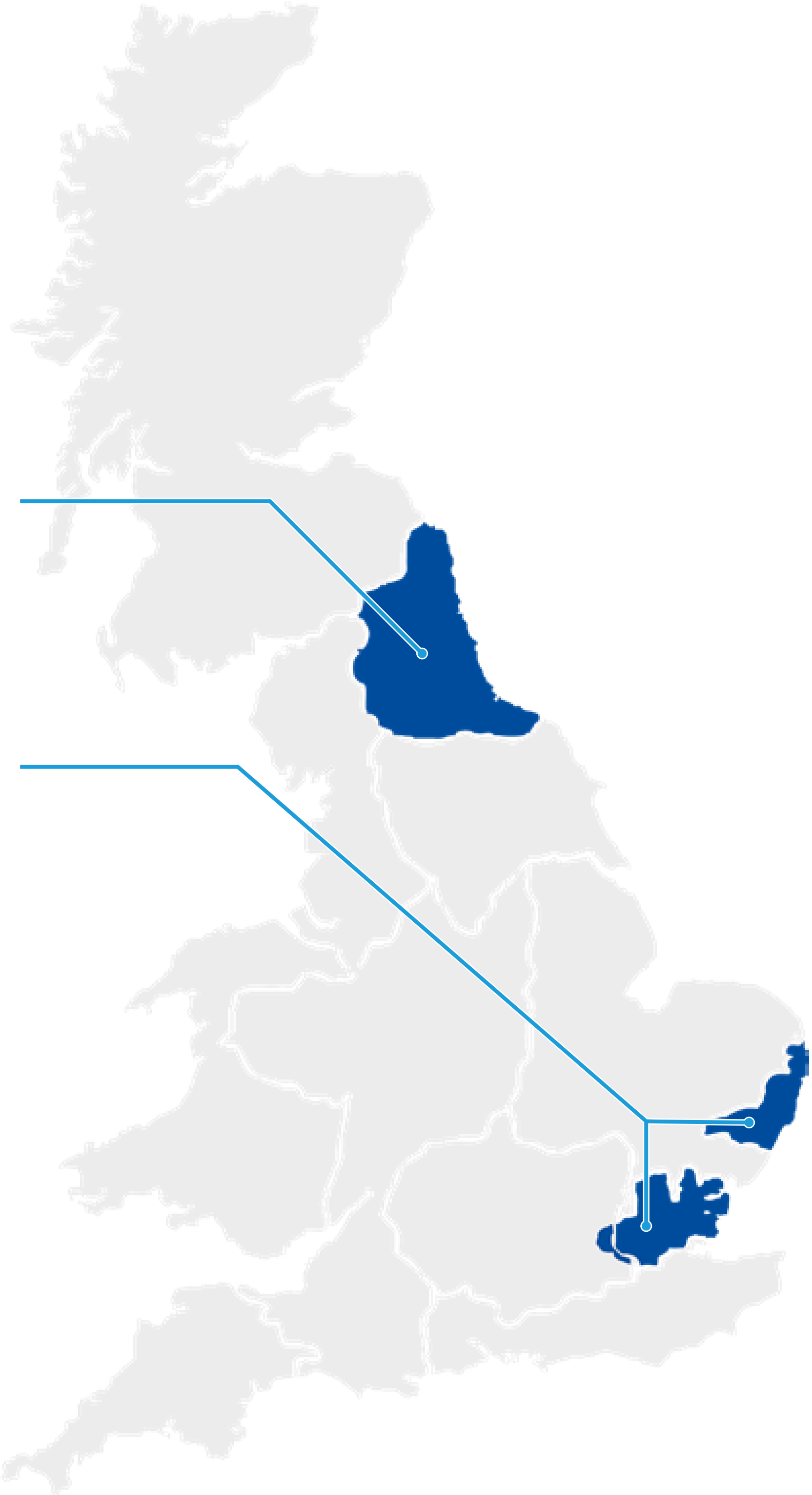
NW supplies water and wastewater services to **2.7 million** people in the major population centres of **Tyneside**, **Wearside** and **Teesside** as well as the large rural areas of **Northumberland** and **County Durham**. We provide wastewater services only in **Hartlepool**.

ESW supplies water services to **1.8 million** people in **Essex** and **0.3 million** in **Suffolk**. Our Essex area is part rural and part urban and includes the main population centres of **Chelmsford**, **Southend** and the **London Boroughs of Barking and Dagenham** and **Havering and Redbridge**. Our Suffolk area is mainly rural with the largest towns being **Great Yarmouth** and **Lowestoft**.

We operate and maintain:
- **50** water treatment work;
- **388** water pumping station;
- **304** water service reservoirs;
- **26,451km** of water mains;
- **413** sewage treatment works;
- **966** sewage pumping stations;
- **30,237km** of sewers.

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

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



Our highlights

C-MEX - 1st. Place
Top company for customer experience and satisfaction

Innovation Fund Success
Further £6.7m of projects awarded from Ofwat Innovation Fund

Most Trusted Water Company
Joint top WASC for Trust in CCW's Water Matters Report

Ethisphere - World's Most Ethical Companies
Recognised for the 12th time and only water company on the list from Ofwat Innovation Fund

Reducing water poverty
More than 100,000 customers receiving affordability support

Vision for Coasts and Rivers
Published updated progress on our pledges to further improve our coast and rivers

Employee Trust and Engagement
Great Place to Work Certified Employer Status

Supporting Local Suppliers
Over 60p in every £1 spent with local suppliers in our operating regions

Our Outcomes: 2020-25

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

Unrivalled Customer Experience

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

Reliable and Resilient Services

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

Affordable and Inclusive Services

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

Leading in Innovation

- We are an innovative and efficient company.

Improving the Environment

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

Building Successful Economies in our Regions

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

Our stakeholders

We provide 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. We also seek to build partnerships working towards shared objectives. To achieve this, it's critical for us to engage with the representatives and organisations who also have a role to play in looking after the interests of our customers, communities and local environment.

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.

Customer voice

Stakeholders	How we engage	Key issues discussed
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 digital platforms • Co-creation workshops • Email surveys • SMS surveys • Social media • Community Portal • People's Panels • Customer Zone at Innovation Festival • Telephone and door-to-door interviews	• PR24 business planning • Long-term strategies • Drainage and Wastewater Management Plan (DWMP) • Water Resource Management Plans (WRMP) • Water environment improvements • Social tariffs • Non-household priorities • Metering • Billing
Consumer Council for Water (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	• Complaints management and best practice • Water Matters tracking research • Tariffs, including social tariffs and tariff innovation • Customer engagement • Social purpose • PR24 business planning • Future service provision • Affordability and inclusivity • Sewer flooding • Visible leaks • Demand management • Dealing with adverse weather events
Water Forum Our Water Forum plays a critical role in challenging us on how we improve outcomes and delivery for customers, including through our approach to customer research and engagement.	• Formal meetings, sub-groups and task groups • Deep dive reviews • Meetings with senior managers, Executive Leadership Team (ELT), and Board members • Consultation processes	• PR24 development • Company performance • Customer engagement activity and performance • Financial support for customers • DWMP and WRMP • Drinking water quality improvements

Government and regulatory context

Stakeholders	How we engage	Key issues discussed
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 • Site visits • APR	• PR24 business planning process • DWMP and WRMP • Ongoing performance and compliance discussions • Affordability support • Engagement with Ofwat's innovation competition • Response to incidents
Environment Agency (EA) We are committed to delivering excellent environmental outcomes and work closely with the EA 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 review group meetings • Site visits • Regional and local partnerships and groups, including Regional Flood and Coastal Committee, Northumbria Integrated Drainage Partnership (NIDP) and Catchment Partnerships • Provision of training to local EA officers on request	• Compliance and performance, including pollution and bio-resources • Event duration monitoring • PR24 business planning • WINEP development and delivery • DWMP • WRMP • Infrastructure investment and nature based solutions • Net zero target and regional climate initiatives • Nutrient neutrality • Strom Overflows Discharge Reduction Plan • Data transparency
DWI 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 through 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
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 • Water demand • Storm overflows and river water quality • Incident response and resilience • Eradicating water poverty • Innovation activity

Our people and partners

Stakeholders	How we engage	Key issues discussed
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.	Heidi Live' question and answer session broadcast with CEO • TeamTalk business update events with Leadership Group and cascaded to all colleagues • Company-wide Roadshows • Internal communication channels – The Source intranet, weekly interactive newsletter, email newsflashes, digital screens, Yammer • Leadership Conferences • 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 • Diversity and inclusion strategy and campaigns • Innovation projects and ideas • Survey feedback and resulting focus areas

Supply chain partners	How we engage	Key issues discussed
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 • Regional economic development • Community investment initiatives • Responsible procurement approaches

Civil society

Stakeholders	How we engage	Key issues discussed
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	• Asset investment schemes • Local campaigns and customer engagement initiatives • Environmental performance • Local economic benefit • Regional plans, including economic development and environmental initiatives • Eradicating water poverty • WRMP and DWMP • Community investment initiatives
Charities and non-governmental organisations (NGOs) 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 • Innovation and development support • Governance support • Meetings and forums • Partnership schemes and collaboration	• PR24 business planning • 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

Stakeholders	How we engage	Key issues discussed
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.	• Board meetings • Periodic reporting • Investor update on new issuance • Credit investors portal • Credit agency meetings and publications • Engagement with banks	• Health and safety • Regulatory and operational performance • Financial results • Funding, hedging and liquidity • Regulatory environment • Capital programme update • Euro Medium Term Note Programme

Section 172 statement

The Board of Directors believes that considering our stakeholders in key business decisions is not only the right thing to do, but is fundamental to our ability to drive results over the longer term.

The Directors of the Company are bound by their duties under the Companies Act 2006 to promote the success of the Company for the benefit of its members as a whole. In doing so, however, the Directors must have regard to the interests of our stakeholders to ensure the long-term success of the Company. The Board is therefore responsible for ensuring that it fulfils its obligations to those impacted by our business, in its stakeholder consideration. This Section 172(1) statement sets out how the Directors have, in performing their duties over the course of this year, had regard to the matters stated in section 172(1)(a) to (f) of the Companies Act, alongside some examples of how each of our key stakeholders have been considered and engaged.

Further information on how we engage proactively with a wide range of stakeholders to understand their views is detailed on **pages 14** to **17**.

The likely consequences of any decision in the long term – s172(a)

The nature of our business, with its activities regulated by Ofwat, the EA and the DWI, requires that the Board always considers the longer-term consequences of our decisions, and this is enshrined in our Purpose Statement.

This long-term perspective underpinned the Board's strategy for the PR19 Business Plan, which set out ambitious goals in respect of achieving net zero carbon and delivering reliable and resilient services for future generations.

During the year the Board continued its planning for PR24 and is clear that it retains ultimate responsibility for the Business Plan. The Board discussed the importance of balancing the need for environmental and service improvements, in particular reducing storm overflows and improving drinking water quality, with ensuring affordability for customers. It will also consider how the improvement of long term asset health can be addressed through the Business Plan.

It established a PR24 Board Sub-group to provide strategic direction on all aspects of PR24 including ensuring that the governance and assurance arrangements underpinning the preparation of the Business Plan are robust and comply fully with Ofwat's requirements. The full Board will approve key strategic decisions and the Plan itself before submission.

The Board closely monitors the financial position of the business through a rolling five year plan, whilst also considering longer-term financial resilience over an extended time horizon as explained in the Viability Statement on **pages 105** to **109**. An updated Treasury Strategy was developed, and approved, to meet financing requirements over the next six years, and has now been implemented. During the year, the Board has also reviewed its Dividend Policy and Energy Strategy, both as part of considering the Company's long-term resilience.

The Board, through its Risk & Compliance Sub-committee (R&CSC), monitors the principal risks and uncertainties facing the business including longer-term strategic risks. A detailed review of the Strategic Risk Register is carried out each year, most recently in December 2022, which considers horizon scanning reports from external sources. The principal risks and uncertainties, and how they are mitigated, are reported on **pages 57** to **62**.

The Board, based on the work of the R&CSC, decided that the Principal Risks remained the same as the prior year, albeit the description and mitigation of the risks has been updated. Specifically, the 'Customer trust and confidence' risk has been renamed as 'Customer and stakeholder trust and confidence' to recognise the wider public interest in matters such as storm overflows.

The Board considered and satisfied themselves that there was appropriate clarity, transparency and structure in relation to the risks, given their potentially far-reaching impact on the future success of the Company in the long term.

The interest of the company's employees – s172(b)

Our employees are essential to everything we do and achieve and their commitment to our purpose and values is critical to the Company's long-term success.

The health, safety, and wellbeing of our employees is a fundamental area of focus and is the first matter considered by the Board at each meeting. Board discussions centre around any lost time accidents or high-risk incidents and the learning points taken from them as well as performance against leading and lagging indicators.

Confidential, truthful employee feedback on what it is like to work for NWL through our annual colleague engagement survey is always encouraged each year. Employee feedback has provided the Board with insight and challenge and has allowed employee interests to remain a priority when considering key concerns.

Regular updates are provided to the Board, Remuneration and Audit Committees on culture, engagement, diversity and inclusion, gender pay gap and employee pay.

It is vital that we have a diverse workforce, thriving in an inclusive culture. The Board supported the launch of our first Diversity and Inclusion Strategy in October 2022. The Strategy explains why NWL needs to be more representative of our customers and the value of ensuring that all our colleagues are included in our inclusion objectives. Clear milestones have been set in the strategy, which are to be measured by the end of 2025.

NWL been ranked among 250 organisations on the UK's best workplaces for wellbeing 2023 list in the super large category by Great Places to Work. This is in recognition of our colleague health and wellbeing offering, which includes our award-winning Living Well hub – a digital one stop shop for wellbeing, sports and social clubs, wellbeing webinars, flu vaccinations, digital GP service and our colleague-led support networks, which champion and support employees from under-represented backgrounds. The Board encourages our ambition to support the diverse needs of employees and ensure everyone goes home safe everyday, no matter who they are, or what their role is.

Furthermore, the Company is proud to have been re-accredited to the Good Business Charter for the second time, whilst still being the only water company on the list. This award recognises great colleague wellbeing support and initiatives, commitment to customers and diversity.

The need to foster the company's business relationship with suppliers, customers and others – s172(c)

Engagement with customers and other stakeholders is fundamental to the development of our strategy and plans.

The Board appreciates the opportunity to understand the different perspectives of key stakeholders in relation to the challenges facing the sector. One example of this approach by the Board was the publication of our Draft Water Resources Management Plan 2024 consultation which set out how we can ensure we can continue to deliver clean, clear drinking water in the future, even in the most severe drought. In sharing these plans in draft form, we hope to get as many views from our customers as possible to help develop our final plan, which will be approved by the Board.

Everyday business relationships are managed by the Executive Leadership team under the supervision of the Board, and details of how the wider Company engages with suppliers are included in the Our Stakeholders section on **pages 14** to **17**.

The Board is cognisant of the impact its decisions have on suppliers and receives regular updates on supplier relationships and the capital investment programmes at each Board meeting. This update allows the Directors to review and challenge progress across the different investment programmes. In addition, under the terms of reference of NWL's Board, it must approve contracts with suppliers above a certain value which ensures that there is the appropriate level of oversight of these key contracts.

Each year the Board also approves NWL's Slavery and Human Trafficking Statement, which details the steps that we have undertaken to ensure that slavery and human trafficking is not taking place in any part of the business or within our supply chain.

The impact of the company's operations on the community and the environment – s172(d)

The Company's interaction with and impact on both the communities it serves and the environment are of particular interest to Directors.

The R&CSC leads on mitigation of environmental considerations and other risks on behalf of the Board. The Performance Review section in the Strategic Report, on **pages 23** to **50**, provides further detail on the Company's activities in relation to climate and environmental concerns.

As a water and wastewater operator, the water environment is at the heart of everything we say and everything we do as a business. However, our care and respect for our natural environment goes far beyond any regulatory requirements. The Board receive regular updates on how we work constantly to protect and enhance coasts, rivers and watercourses in all areas of our operations, specifically in relation to its Water Resource Management Plan and Pollution Incident Reduction Plan. In our business plan for 2020-25, we set the ambitious goal for our operating area to have the best rivers and beaches in the country, and to have zero pollutions as a result of our assets and operations.

The Board supports the nine ambitious pledges that we are committed to achieve that we believe will be effective for our unique water environment and make a real difference to our communities. We are proud of the level of environmental investment we committed to in the current five-year investment period, but we understand that times and expectations have changed. Our challenge now is to demonstrate how we can do even more to invest to protect and enhance our rivers. Further information can be found on our website at: A Vision for our Coasts and Rivers (**nwg.co.uk**)

The Directors have also had in-depth discussions regarding the significant increase in investment required in AMP8 and beyond. We are investing substantial amounts in the current regulatory price period towards reducing our use of storm overflows and upgrading our wastewater network, and are already planning an extensive environmental programme of £1.7bn over the next few years to stop storm overflow spills in the environment.

We also play an active role in our communities, supporting them through charitable endeavours and generating a positive impact on our communities worldwide. Our business relies on resilient communities; we have extensive experience of making a difference in the communities we serve, both locally and internationally. The success of our Bin the Wipe campaign and the support it has generated from customers, regulators, and stakeholders (including members of parliament) has led to a national campaign, which was adopted by the UK water and wastewater industry, as well as the industry body, WaterUK, and was approved by Parliament in October 2022.

The Board has received reports in relation to routine operational performance and encouraged the Company's use of technologies and new innovations to minimise disruption to customers, the environment and communities in our network. In February 2023, the Company appointed five partners to new frameworks aimed at reshaping the way it delivers capital investment projects. This will look in greater detail at the complete life cycle of assets to ensure smarter spending and risk-based planning for the long-term. Alongside this total expenditure (totex) approach, the group will challenge existing methods and investment choices, allowing for a greater focus on alternative options, including the potential to reduce carbon and promote greater sustainability in our asset base, through nature-based solutions to water and wastewater treatment.

The desirability of the company maintaining a reputation for high standards of business conduct – s172(e)

The Directors recognise the requirement for NWL, as a leading company operating in a tightly regulated sector and running a critical public service, to maintain the highest standard of business conduct.

NWL adhere to Ofwat's Board leadership, transparency and governance principles, subject to the exceptions explained on **pages 72** to **79**. We also operate in accordance with the Wates Corporate Governance Principles for Large Private Companies and explain our compliance with the principles on **page 86**.

The Company has robust risk management and internal control processes, both of which are reviewed by the Board or the relevant Board committee. For instance, the Audit Committee is responsible for controlling oversight of the Company's systems for managing compliance, fraud, anti-bribery, whistleblowing and of the internal audit function, and making appropriate recommendations on policy and actions to the Board.

The Company is proud to be named the world's 'most ethical' water company for the twelfth time in this year's World's Most Ethical Company list, judged by Ethisphere. As one of only two UK companies, and the only water and sewerage company in the world to be named in the list, this is a fantastic achievement and reflects the hard work and dedication of our colleagues who are committed to delivering the highest ethical standards in everything we do.

Having regard to the desirability of the Company maintaining a reputation for high standards of business conduct, the Board spent time considering and ensuring that the governance framework in place between the Board and company management remained appropriate, including reviewing the authority and permissions delegated to the Company pursuant to its internal governance framework.

Through both the Audit Committee and the R&CSC, the Board continued to monitor and satisfy itself that required behaviours were understood and that business conduct and ethic guidance was observed.

Additionally, the Board also considered lessons that could be learnt from public criticism of other utilities arising from their failings in relation to incidents in which they were involved (both safety and climate related) so as to inform future thinking and strategy impacting customers, communities, and the environment.

The need to act fairly as between the members of the company – s172(f)

The composition of the Company's Board is detailed on **pages 67** to **69**.

The relationship between the shareholders and their respective rights are governed by private agreement. The Board does not afford any one shareholder or group of shareholders any special rights or privileges and seeks to always act fairly between them and treat them equally, including ensuring that there are procedures in place to address any conflicts of interests that could arise and ensuring equal access to information.

All Directors receive a monthly report from the CEO detailing the performance of the business covering a range of management information that includes but not limited to, customer experience, financial updates, capital investment, operations, health and safety, regulation, commercial activity and corporate affairs.

Five Independent Non-Executive Directors (INEDs) have been appointed to the Board since April 2021, bringing a wide range of relevant expertise and experience, and to follow good corporate governance practice in regard to INED tenure.

Whilst the Board will continue to work as an integrated whole, the INEDs each have areas of special focus, drawing on their professional expertise and backgrounds and working with particular stakeholder groups. Richard Sexton chairs both the Audit and Risk and Compliance Committees. Peter Vicary-Smith pays particular attention to customer-related matters, Jacqueline McGlade brings a strong environmental perspective, Bridget Rosewell provides insight on asset management and Alan Bryce works closely on employee matters. This enhances the Board's effectiveness and provides constructive challenge to the Company's management where this is appropriate and to help develop strategy.

Regular, formal and rigorous evaluations of the Board's performance and that of its committees and individual directors are conducted, with the most recent Board evaluation taking place in March 2023.

Section 172 Duty

The Directors of NWL consider, both individually and together, that they have acted in a way they consider, in good faith, would most likely be to promote the long-term success of the Company for the benefit of its members as a whole and having regard (amongst other matters) to factors (a) to (f) s172(1) Companies Act 2006, in the decisions taken during the year ended 31 March 2023.

Performance Review

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

This reflects the Measures of Success (MoS) and Performance Commitments (PCs) set in our PR19 Final Determination (FD). Though we track a wide number of metrics in our business, we have reduced the number of key indicators to focus on the matters which are most important to our customers. We report against our full range of PCs in our **APR**.

The top section of the Performance table on **page 24** (with a blue header block) shows our performance against the Outcomes, MoS and PCs we agreed in the PR19 price review. Please note that the leakage targets were revised to reflect changes in the FD following the Competition and Markets Authority (CMA) redetermination.

We have colour coded our customer and environmental performance as follows. (●) where our performance has met or exceeded our target; (●) where we have not fully met our performance target but still generated a reward or not incurred a penalty; and (●) where we have not met our performance and have incurred a penalty.

Our target for C-MeX is to be in the top 2 overall and, although we ranked 3rd in the component measures of customer experience and customer service, we achieved 1st place for overall C-MeX and have therefore coded both C-MeX measures as being met.

We are pleased that we have shown improvement, or held performance stable, on 67% of our stretching customer and environmental targets, including first place overall for C-MeX, meeting our leakage targets in both ESW, where we are already at the forefront of the sector, and NW and continued improvement on sewer flooding. However, we aim to achieve all of our PCs and ensure that we take corrective action when performance doesn't meet our targets.

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

Actual performance against the KPI targets

Scorecard Measure	Units	2021/22 Performance	2022/23 Target	2022/23 Performance	2022/23 Achieved	2023/24 Target
Customer						
C-MeX: Customer experience[1]	position	1st	Top 2	3rd (1st overall)	●	Top 2
C-MeX: Customer service[1]	position	5th	Top 2	3rd (1st overall)	●	Top 2
D-MeX: Developer services measure of experience	position	5th	Top 2	6th	●	Top 2
Interruptions to supply > 3 hours[2]	mm:ss	05:52	04:53	08:17	●	04:53
Repeat sewer flooding incidents	number	23	<=31	23	●	<=27
Internal sewer flooding incidents	number	238	<=207	158	●	<=162
Compliance Risk Index (CRI)	score	6.36	<=3	7.62	●	<=3
Environment						
Leakage (NW)	Ml/d	130.5	<=121.3	119.2	●	<=118.0
Leakage (ESW)	Ml/d	59.3	<=63.2	56.0	●	<=59.0
Discharge permit compliance	%	98.03	100	98.52	●	100
Pollution events (Category 1&2)	number	1	0	0	●	0
Greenhouse gas emissions	ktCO2e	22.14	<=24.42	23.44	●	<=22.18

Scorecard Measure	Units	2021/22 Performance	2022/23 Target	2022/23 Performance	2022/23 Achieved	2023/24 Target
Competitiveness						
Gearing: net debt to Regulatory Capital Value (RCV)	%	69.8	<=77.5	68.3	●	<=77.5
Regulated gearing: net debt to RCV	%	69.7	<=70	68.3	●	<=70
Interest cover	times	2.3	2.4	3.2	●	2.4
People						
Employee engagement – trust index	%	67	>=70	70	●	>=70
Lost time accidents	number	14	<=15	14	●	<=14
Communities						
Trust - Ethisphere	awarded / not awarded	awarded	award	awarded	●	award

[1] 2022/23 reported as achieved because ranked 1st place for overall C-MeX
[2] 2021/22 performance excludes interruptions related to Storm Arwen caused by third party power supply failures.

Customer

Unrivalled Customer Experience

We were absolutely delighted to have finished in first place for C-MeX in 2022/23, the industry-wide measure that provides a holistic comparison of companies' customer satisfaction and experience performance. 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.

We know that to be recognised by our customers as top performers, we need to look at the interactions and engagements we have every day, as well as the cumulative impact of these and the way our customers see us overall, or through time.

To improve customer satisfaction our focus has been on improving customers' experiences when they do get in touch. We have focused on communication at all stages of our customers' journeys as we know keeping them informed and being open and transparent is critical to satisfaction and positive experiences. We've improved how and when we communicate, as well as the channels we choose to share messages. Being proactive, choosing the right time to get in touch and the right messages to share means we can share positive updates and information in a timely way that helps customers understand and feel in control.

In the small number of cases where complaints are received, we take a 'phone first' approach and talk with our customers before following up in writing if we need to. 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.

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.

In relation to customer experience, 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 multiple contact channels throughout the year, including voice, automated interactive voice response, email, webform, website, app, social media, and messaging.

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.

D-MeX – Developer Measure of Experience

D-MeX measures the service that we provide to developer services customers, including property developers, self-lay providers (SLPs) and those with new appointments and variations (NAVs). Our target is to be in the top two companies for D-MeX.
This year we finished in 6th place.

Overall, our performance for 2022/23 improved compared to the previous year with customer satisfaction remaining strong in top quartile throughout the year. However, this is a comparative measure and other companies have also improved, meaning that our industry position has fallen by one place. To improve our performance further, we are focusing our efforts on ensuring that we have ringfenced resource enabling us to achieve new service connections on the planned date. We continue to enhance the customer online portal to include other customers such as SLPs and NAVs, make welcome calls to each new customer explaining the process and next steps, and reduce response times.

Customer engagement

We make sure our customers are at the heart of every decision we take. Whenever we have big decisions to make about changes to the services we provide and how we provide them, we seek our customers' views so that we can make sure we provide services in the way that they want us to. Getting the right balance between investing in our services, environmental improvements and the affordability of customer bills is not easy, and it's really important to us that the views of our customer inform those decisions.

Over the last two years we have engaged with customers on our PR24 Business Plan in order for us to reflect what our customers have asked us for in our plans for 2025-30. In these discussions, people consistently tell us their top priority is good quality water. They also share their concerns about the environment, particularly water scarcity and drought in Essex and Suffolk, and the need for long-term improvements to river and bathing water quality in the North East. Customers also tell us that they expect us to work with others in our regions to solve difficult problems, which we already do well working closely with organisations like the Rivers Trusts.

We see growing support for these environmental improvements, but customers don't always want to pay for these through their bills, especially when times are already tough. With some of the poorest communities in the country on our doorstep, it's not surprising that our customers tell us is that it's really important to keep our services as affordable as possible.

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

Affordable and inclusive services

We have an ambitious target to eradicate water poverty in our operational areas by 2030. Customers in water poverty are paying more than 3% of their net household income, after housing costs, on their water bill. Although we have made some progress towards this target, the significant economic upheaval over the past three years, with Brexit, the Covid-19 pandemic and cost-of-living crisis, coupled with high inflation driving increased water bills, has made this challenge much more difficult.

We have seen an increase in customers reaching out for financial support as the cost-of-living crisis has impacted customers who were previously managing. During 2022/23, the number of our customers benefitting from either a reduced or capped bill tariff increased by 54% to over 100,000. This has resulted from a number of proactive steps we have taken to identify customers who would benefit from support arrangements.

Our data sharing arrangement with the DWP has continued to provide the largest opportunity to provide reduced bills for customers. We have also set up new data sharing agreements with two Local Authorities, using the Digital Economy Act, which allows the authorities to share information with us where they can see that customers may be eligible for a bill discount.

To make things easier for customers, we have introduced an eligibility checker on our website which with a few simple questions can direct them to the best financial support for them. This could be an affordable payment arrangement, tariff application or applying for payments to be taken directly from their benefits.

In January 2023, we expanded our use of Policy In Practice, who provide social policy software that helps customers check if they are receiving all of the government benefits they are entitled to. This tool has been enhanced so that it can identify if customers are eligible for a discounted or capped bill or if they would be better off on a water meter.

Providing proof of eligibility for our low-income schemes has previously created a barrier for customer applications as they have needed to send us copies of benefit statements and bank statements. We wanted to assist vulnerable customers by being able to offer them 50% reduced bills for their water usage but to do this, we needed a new method of processing and verifying customer applications. Our data-driven solution which has been developed with TransUnion enables us to check eligibility at the click of a button, streamlining the customer journey and reducing the risks of fraud. This is due to go live in Autumn 2023 and is leading in the water industry.

We are working with industry on how we can deliver a more aligned social tariff approach for customers in the future to help increase awareness of industry help and give customers confidence that those in similar situations across the country can get the help they need. We currently have one of the lowest customer subsidies in the sector and believe that increasing this cross subsidy is key for us to be able to help more customers in the future.

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 third 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.

Case study
Embedding Excellence in Customer Experience

We strive to be at the heart of our communities, and that means understanding our customers and what they need us to deliver. Our work on customer experience and satisfaction has meant we have been recognised, not just in our industry through the C-MeX measure, but also alongside the UK's biggest brands in the KPMG Customer Experience Excellence report for 2022.

We aim to give our customers an unrivaled experience. With 2.7 million customers in the North East, and 2.1 million in Essex and Suffolk, we know we need to get better every year. That means embedding good practice not just in direct interactions with customers, but in every part of our business, ensuring everything we do is customer-oriented.

We're delighted our work is recognised by the industry-wide C-MeX measure of customer experience, which ranks us against our peers. Over the past few years, our strong performance has seen our ranking improve year-on-year and we're delighted to rank first in the country in the 2022/23 results.

Doing well within our industry is a brilliant achievement, but we aspire to do even better, and we're delighted to have been placed alongside some of the biggest brands in the UK in KPMG's Customer Experience Excellence report for 2022. The report, by the KPMG Nunwood Excellence Centre, puts Northumbrian Water Group in the top 100 companies in the country for customer experience.

We were delighted that Northumbrian Water not only ranked highly, but was one of just two utility providers on the list and the only WASC, and was included as an exemplar case study in the report. The analysis is carried out based on six key pillars of customer service - Integrity, Personalisation, Empathy, Time and Effort, Expectations and Resolution. These six pillars support our customer function, and are widely understood across the business - even our internal processes use them as a guide, ensuring that crucial values like integrity and empathy are at the heart of everything we do.

Reliable supply of water

Our customers expect that water will flow when they turn on the tap and that they should not be affected by shortages of water. We recognise that interruptions to the water supply can cause our customers real inconvenience, especially when they are unexpected and we cannot warn customers in advance.

We were disappointed to miss our performance target on interruptions to supply in the year. Performance against this metric is susceptible to external factors, in particular weather, and we experienced increased interruptions caused by the dry soil conditions during the summer heatwave, where temperatures hit 40 degrees in our Essex region, and a freeze/thaw event in December 2022.

We put our customers at the centre of our response to a supply interruption and have been one of the industry leaders over several years. Our focus is to restore our customers supplies before carrying out any permanent repair, while always taking a balanced approach to other considerations such as environmental protection and the health and safety of our team and the public. We restore supplies by rezoning our network or deploying temporary equipment, and we are pleased to report that we have fully rolled out the mobile storage units (MOWBIs) in Essex. These units can provide a temporary supply to an individual property, and we are proud that our teams have taken this innovation from the conceptual stage through to the point of delivery. Looking ahead we are planning on deploying MOWBIs across our whole business and scaling the concept to be able to supply multiple properties.

We have also continued our efforts to help our customers reduce their demand for water. We have a long term goal to reduce household per capita consumption (PCC) to 118 litres per person per day by 2040, from a base of 150.6 litres per person per day. However, the Covid-19 pandemic has had a pronounced and sustained effect on PCC. Initially this was a result of increased water use for hygiene requirements and a substantial shift to home working. Since then, while the impact has lessened, we have continued to see sustained increases in household water consumption as water-use behaviours have changed and hybrid working means more water use at home. Social distancing restrictions also limited our ability to implement water efficiency measures in customer homes. As a result, PCC is 2.1% higher than the 2019/20 baseline.

We always provide a reliable supply of water.

Ofwat has acknowledged the impact of the pandemic on PCC and has agreed to defer the application of any financial incentives until the end of the period, in order to allow research to be carried out to understand the impact. We have collated a comprehensive and robust evidence base that provides insight into the drivers of changes in household consumption, which clearly demonstrates the sustained and material impact of the Covid-19 pandemic on household PCC. We will continue to carry out research and data analysis to ensure we have a robust and clear picture of how the pandemic continues to impact PCC.

Our approach to water efficiency has evolved substantially over the past three years, though our strategy continues to hold behavioural science and customer experience at its core. We delivered a strong and comprehensive programme of water efficiency activities in the year, including: focusing water efficiency visits on personalised behaviour change and longer term follow up, through our Water's Worth Saving programme, large scale summer communications campaigns, using a multi-channel approach to achieve broader engagement with our customers; and the implementation of an online calculator to help customers understand more about their water consumption how it links to energy consumption.

We have successfully bid for funding through Ofwat's third Water Breakthrough Challenge to lead the first national Water Literacy programme, to raise awareness of the value of water. We remain committed to a long-term target on reducing the water taken from the environment by delivering effective campaigns and interventions.

Clean, clear water that tastes good

The water we supply must meet the stringent quality standards set by the DWI, to ensure that it is safe to drink and free of colour and particles, poor tastes and smells. This is measured by the CRI, using information from the whole source to tap journey, through water treatment works, networks and customer taps, to make a more exacting assessment of water quality.

Our CRI in 2022 of 7.62 represented a deterioration from the previous year. We're working closely with the DWI and as part of a transformation plan, however that means that the compliance assessment for failures attract a higher CRI score. The biggest impact on CRI for 2022 was a bacteriological failure from a water treatment works in the Teesside area, though a sampling campaign demonstrated that the result was confined to the treatment works and had no impact on customer supplies or public health. In addition there were 15 service reservoir failures in 2022, which was a deterioration in performance compared to 2021.

We're disappointed to not hit our high standards in this area so we've accelerated and increased funding in our base capital programme to deliver improvements. In the last year we have completed the replacement of three sites in Northumberland along with the completion of the installation of UV treatment at two works supplying the Durham and Wearside areas. Our new treatment works at Horsley, which supplies a large proportion of Tyneside is partially in supply we expect it to be completed in 2024. 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.

Our drinking water is clean and tastes good.

The quality of the water we supply is of paramount importance, but our customers also care about the appearance, taste and smell of the water they receive. We have continued to improve performance on appearance of water and delivered our best results yet in 2022. We are continuing to progress with our programmes of work to avoid discolouration from trunk mains and adopted a focused zonal approach to flushing which improved performance. The number of complaints we received about the taste and smell of our water was also lower than we committed in our PC. This was particularly pleasing as we were able to maintain this performance through challenging operational periods including a hot, dry summer.

We are carrying out an ongoing project with Siemens in the Tees system, where there are a higher-than-average number of contacts for both discolouration and taste and smell as well as a number of CRI-related fails each year. We've installed online water quality monitors in the distribution network to identify changes in water quality parameters. This information is being used to support investigations into changes into water quality.

Sewer flooding

Sewer flooding is one of the worst service failures our customers can experience and our goal is to eradicate sewer flooding in the home as a result of our assets and operations. We are pleased to have seen continued reductions and since the end of 2019/20 the number of internal sewer flooding incidents has reduced by 64% with external flooding reduced by 34%. We have achieved our PC for both internal and repeat sewer flooding, though we didn't meet our target for external flooding, despite improving on the previous year. Further detail can be found in our **APR**.

This success has resulted from the continuing maturity of our sewer flooding tactical plan initiated in 2019. Our tactical plan is reviewed monthly to make sure we are doing everything we possibly can to help reduce the risk of sewer flooding to customers, as well as providing the right level of support and standards when this does happen

Our sewerage service deals with sewage and heavy rainfall effectively.

Highlights this year include visiting over 500 high risk properties and investigating, clearing blockages, and fixing sewer defects where we find them. We also significantly boosted the engagement we have had with customers from our Bin the Wipe campaign by sending an additional 100,000 information letters to customers in hotspot areas. This is on top of the 170,000 properties we have engaged with directly on the ground. Further initiatives planned for 2023, including CCTV of all first-time blockages will help further reduce the risk of sewer flooding to customers in the North East.

We are confident in our planning and that our performance will improve in the near future, however, we will also be using the outputs from our DWMP to identify future hotspot areas for investment, as well as using this programme to identify how we can best use new technology to proactively manage risk through 'smart networks'.

Reliable and resilient services

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

A particular area of focus is understanding the risks posed by climate change. In December 2021 we published our first Climate Adaptation Report, which we submitted to the UK Government, setting out our assessment of our key climate risks, how our business is responding to cope with climate change and the adaptive approach we are adopting.

The key climate risks we've identified relate to flooding, drought and extreme temperatures. We assessed these risks and set out our action plan under five action areas, developed based on the action areas in the Climate Change Committee's third Climate Change Risk Assessment. These action areas are:

- Engineered and nature based solutions – physical interventions including grey, green and blue solutions;
- Data, R&D and emerging technologies – research, innovation, new designs and tools, digitisation and data;
- Behavioural – new practices, information sharing, engagement and skills;
- Institutional – governance, standards, supply chain, regulation and advisory; and
- Financial - insurance, risk disclosure and finance.

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

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

We published our first **DWMP** in May 2023 to identify how we will extend, improve and maintain a robust and resilient drainage and wastewater system in light of the pressures of climate change, population growth and growing customer expectations. The framework provides the basis for more collaborative and integrated planning alongside organisations that have responsibilities relating to drainage, flooding and protection of the environment.

The DWMP 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. This will help inform our plans for future investment in service areas such as storm overflow discharge reduction, sewer flooding and pollution 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.

We have a number of other enhancement investments underway which will improve the resilience of our water and wastewater asset base, as well as commencing our roll out of smart water meters. We are also enhancing our cyber security to mitigate against the increasing cyber threat landscape, focusing on the areas that have the greatest impact on protecting our business.

Environment

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

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

A Vision for our Coasts and Rivers

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.

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 when we prepared our Plan for 2020-25, but we understand that times and expectations have changed.

Climate change increases the risk of drought, affecting the health of our waterbodies, and intense storms, increasing the risk of unplanned discharges to the environment. In the last year, our CEO, Heidi Mottram, has helped to establish and co-chair a new partnership, Net Zero North East England, bringing together a series of organisations in our northern operating area to make a bigger collective difference.

We have recently updated 'A Vision for our Coasts and Rivers' on our website, to set out the progress we have made against the nine pledges we have made to water quality and our programme of work to 2025 that will help us achieve our goals. They include reducing spills from our storm overflows to an average of 20 per year by 2025. The number came down from 25.3 to 20.3 in 2022. However, we are not complacent – while this was in part down to our actions and investment, it was also a year in which we saw fewer intense storms, so we recognise there is more to do to make sure we can consistently achieve this level, or better.

We expect to deliver on our pledge to put real time monitoring in place for all our storm overflows during 2023. We have also developed a clear plan to implement water quality monitoring at our highest priority sites. Important work is taking place at the two bathing waters, out of 34, which are not rated Good or Excellent, and we are playing a full part in this even though their lower status does not appear to be due to our assets. We have also taken steps to protect the standards achieved elsewhere in our region.

Many of our pledges cannot be achieved without the support of partners. Over the past year the Rivers Trust has worked with us to establish the North East Catchments Hub and through this new approach, develop a series of catchment and nature-based solutions we hope to take forward from 2025. This would see us deliver water quality improvements for North East rivers, while working more closely with communities, catalysing more investment, and providing a range of other benefits including flood resilience, biodiversity net gain and carbon sequestration.

Case study
Delivering 250km of Water Environment Improvements

Our customers have told us they want us to work with partners to improve the areas of rivers and beaches that they use. That goes beyond water quality to include us helping improve things like access, facilities and biodiversity across the water environments in our operating areas.

We call the water environments our customers can access bluespaces. By focusing on the water environments the public can get to - whether they're streams, rivers, lakes, reservoirs, wetlands, beaches or coastline - we can make a difference to individuals and communities in the areas where we work.

Our business plan 2020-25 includes a commitment to improve 250km of these bluespaces, and in 2022/23 we worked to do that in more than 20 locations across the operating areas of Northumbrian Water and Essex & Suffolk Water.

This included path improvements at Holywell Dene, fish and dormouse conservation at Roman River and Layer Brook, wetland creation at Longdike Burn, stream and beach cleans at Limekiln Gill, and waymarking improvement at RSPB North Warren.

This work is supported and externally assured by our Water Environment Governance Group, whose independent members include an academic, The Rivers Trust and the Environment Agency.

Our bluespaces improvement projects must make a difference to a site in at least two of the following areas: access, facilities and recreation; wildlife and biodiversity; water quality.

We anticipate investing around £1m over the five years of our business plan to support partner projects to improve water environments.

To date, the average level of investment for projects is £10,000 for a 3km project, and we are targeting 58km of bluespace improvements each year from now until 2025.

Treatment works compliance

This measure includes both wastewater and water treatment works discharges. We were disappointed to have four failing works, one wastewater and three water, out of a total of 205 eligible treatment works. The wastewater discharge was due to a suspended solids failure with the water failures relating to iron, chlorine and wash water resulting from a flooding incident.

We are disappointed to have had failures again this year and we recognise these failures have an impact on the environment, people, and wildlife, though in each case the impact was relatively minor and transient. To make sure we are doing all we can to improve our performance we are working on a tactical plan specifically for discharge compliance, similar to the approach we have taken on sewer flooding in recent years. This will cover both water and wastewater and include root cause analysis, data interpretation and identify any additional training or governance required.

Future permits will tighten as legislation changes, alongside the pressures of increasing population, new housing, industrial development, and climate change. This will introduce new challenges to our performance and we will adopt new treatment technologies and increase our emphasis on very efficient operational control. We must also plan to meet future new and tighter standards and satisfy our obligations in working towards meeting Good Water Framework Directive (WFD) status in our rivers.

Flow To Full Treatment (FFT)

In November 2021, NWL, along with all other wastewater companies, was contacted by the EA and Ofwat in relation to measures to ensure permitted FFT requirements were being achieved at wastewater treatment works. We submitted a significant volume of data in response. Initial investigations identified a small number of sites where the required level of FFT may not have always been achieved and an action plan was implemented which addressed these sites promptly.

In early March 2022, Ofwat issued a formal Section 203 notice requesting information in relation to a potential enforcement case around FFT. The EA also opened an investigation. These investigations are ongoing, and we continue to cooperate with them and have provided further data to both Ofwat and the EA.

We are continuing to scrutinise compliance with our environmental permits very carefully as part of our normal practice. We are providing quarterly updates on our website to keep customers and stakeholders updated.

Pollution incidents

We aim to avoid causing any pollution from our operations. However, we occasionally experience problems in our water and wastewater systems that have an environmental impact on watercourses and the sea. We continue to focus our attention on reducing the risk of this happening, and we were very pleased that we had no serious category 1 and 2 pollution incidents in 2022 from our water or wastewater assets.

Our focus is on continuous improvement in pollution performance through our company-wide zero-tolerance approach as set out in our published Pollution Incident Reduction Plan. We constantly examine all aspects of pollution to target our efforts in effectively reducing the number of incidents. In doing this, we share our experiences and learn from others, such as through the industry Pollution Reduction Task Force and our innovation networks.

An example of a recent innovation is the full deployment of a smart network management technology. This uses advanced machine language learning, together with hyperlocal rainfall forecasting, to accurately predict the normal performance of our assets and provide alerts of issues occurring. This increases our capability to detect these issues and respond to prevent pollutions from happening. 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 increasing to 91% in 2021.

Bathing water compliance

Our stretching performance commitment for 2020-25 is to contribute towards all the region's bathing waters being classified as Good or Excellent. For the 2022 bathing season, 32 out of 34 bathing waters achieved our target with 25 classed as Excellent and 7 as Good. The two bathing waters not achieving our target were Marsden (Sufficient) and Cullercoats (Poor).

Marsden bathing water deteriorated from Good in 2019 to Sufficient in 2021. Our investigation in 2020/21 found that local diffuse sources represent the predominant cause and removal of our only asset, a storm overflow, would not improve the classification. The EA has confirmed that our assets are not contributing to any deterioration in classification which means that it is exempt under the PC definition.

Cullercoats bathing water in North Tyneside has been classified as Poor since 2018. Our extensive investigations, in partnership with the EA and local authority, found 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 remain committed to working with our partners to improve the seawater quality at Cullercoats for our customers, local businesses and recreational users.

Protecting and Improving the Environment

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

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

Leakage

Reducing leakage remains a key focus, and our goal is to have the lowest levels of leakage in the country in our water-stressed ESW operating area. While there were significant challenges associated to the weather over this year, with the hot, dry summer and a significant freeze/thaw event in December, we increased our find and fix resources and were pleased to achieve our target in ESW. However, although we achieved an 8% year on year reduction in our NW area and achieved our annual target, this did not meet our PC target which is calculated over three years. We recognise that particularly during times when we are asking customers to be mindful of their own personal consumption, they want to know that we are working hard to minimise leaks and it's not acceptable to fall short of our targets.

In addition to increasing our find and fix resources, we have trialled several new technologies and techniques to help us achieve our short and long-term leakage goals. We collaborated with industry experts to develop Digital Twins for four of our District Metered Areas, which gave us a new digital tool to identify leaks on our network. We implemented some new AI sensor technology that makes our leakage detection surveys more efficient. We use our annual Innovation Festival to explore new concepts, such as "no-dig" repair techniques, and emerging sources of data that can enrich the insights we have now.

We are leading on industry collaboration, as we develop the new National Leakage Research and Test Centre. This will be a 5km buried water pipe network purpose built for developing and testing leakage inventions without disrupting customers' supplies or affecting water quality. We will also continue to evaluate how we can leverage Smart Meter data, as we increase the number of meters deployed.

Despite all of the above, we recognise that we remain off track against our target in our NW operating area and need to make a significant step change to performance. We will continue to fund innovations and trials of emerging technologies, alongside identifying what level of resources we need to deploy to reduce leakage further.

Case study
A flexible approach to alternative water supplies

We work to keep interruptions to our customers' water supplies to a minimum, but sometimes they are inevitable - either in the case of emergencies or necessary planned works. When that happens, we try to put an alternative water supply in place, especially for our priority service customers. MOWBI provides a new way of doing that.

We work hard to keep interruptions to our customers' water supplies to an absolute minimum, but sometimes they can't be avoided - perhaps there's a burst pipe, or we need to upgrade part of our network.

We recognise that we have missed our targets for minimising interruptions to supply over the past year, in large part due to the impact on our network of hot weather in the summer and a freeze and rapid thaw in the winter. We are committed to innovating to reduce negative effects for customers.

When supplies are interrupted, we prioritise our customers who are most vulnerable. Through our Priority Services Register we know which customers might need extra support or perhaps have health problems which make coping with interruptions to their supply particularly difficult.

Traditionally, we put a temporary supply in place by running hoses and pipes around, often needing to use pumps and generators.

As part of our Innovation Festival, we developed a mobile pumped water storage unit to change that.

The plan was to design a unit which could be delivered to the location of the interruption of supply and quickly connected to provide water for essentials like cooking and flushing the loo.

We built an initial protoype - a converted wheelie bin - which proved the concept and, working with our partners Furst Technologies, we've developed the idea into a version that can be used reliably on site.

Not only can MOWBIs be used individually, but they can be chained together to support greater water needs - for example, when faced with a burst pipe locally, we were able to provide an emergency supply to a nursery in Chelmsford using a set of MOWBIs which kept 80 children plus staff on site until the end of the day.

We're now developing a TOWBI, a larger version of the MOWBI, to support commercial properties like vets or hairdressers where a stable water connection is a necessity.

Daniel Fletcher, Technical Supervisor, said:

"*It's about lots of small wins adding up. If we can ease the disruption for individual households or individual businesses, it quite quickly starts to have a big impact across our operating areas. We know we're ahead of the industry with this innovation, and I know our partners at Furst are looking at how to support other water companies to follow suit.*"

MOWBI is an innovation which started intending to solve a problem, but is already outgrowing that - there's now a team of specialists building around it and the deployment of MOWBIs has become something that is built into our business-as-usual process for planned works.

It's a practical solution, helping us provide a more reliable supply to the customers across our operating areas.

Greenhouse gas emissions

Our ambitious goal is to achieve net zero carbon by 2027 and in July 2021 we launched our Emission Possible plan setting out how we will achieve this ahead of the sector and government targets. We have set challenging targets to reach this goal and have reduced our operational emissions by two thirds compared to the baseline of 2019/20. More detail on these emissions is provided in the Directors' Report on **page 102**.

We have achieved this by:

- Being the only water company to use 100% of our sewage sludge to create energy, and exporting surplus gas to the grid;
- Powering all of our sites using renewable electricity, including a ten year deal to source around 30% of our electricity demand from an offshore wind farm under a power purchase agreement;
- Installing large scale solar arrays on five of our operational sites to meet the majority of their energy demands, with more planned in 2023;
- Migrating our bioresources fleet to run on hydrotreated vegetable oil, a form of biodiesel, whenever possible;
- Using biomethane purchased through the market to reduce our reliance on natural gas; and
- Continuing to be efficient in our travel, avoiding unnecessary journeys and travelling by public transport or using electric vehicles where possible.

Our plans to reach net zero carbon include further development of renewable energy generation, with additional installation of further solar generation in progress, and transition to a low emission fleet and through investment in electric vehicles. We also plan to deploy onshore wind at sites where suitable and sensitive to the environment and our communities. We are continuing to explore other innovative solutions to deliver carbon reductions.

We are also aiming to create zero avoidable waste by 2025 and are on track to achieve this target. 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. We'll also continue our investment in natural solutions like reedbeds, which have provided environmental benefits in biodiversity and reduction in CO_2 emissions.

Catchment Management

Catchment management covers the whole water cycle and links across our water, wastewater and conservation activities. We carry out catchment activities 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. Our goal is to demonstrate leadership in catchment management to enhance natural capital and deliver net gain for biodiversity.

In the areas upstream of our drinking water sources we work with farmers, land managers and other stakeholders to address the risks to good water quality. We do this through raising awareness about pollution risks and providing grants to support changes where needed. For example, our Field to Tap scheme offers grants to farmers and land managers for equipment or land-use changes that will reduce the risk of diffuse or direct pollution to rivers and reservoirs.

We also support wider environmental improvements through partners, such as peatland restoration, and we are leading on two holistic catchment improvements projects in the South Tyne (NW) and Blackwater (ESW) catchments, which focus on improving river habitat and biodiversity to support good water quality.

Competitiveness

Financial performance

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

Leading in innovation

Innovation is central to how we work across the whole business and 'innovative' is one of our core values. We have been working for many years to create the right environment for an innovative culture to thrive and are now benefitting from increased engagement in innovation which is enabling everyone to improve how we work no matter the job level or role. This is essential so that we can deliver the ambitious goals set out in our 2020-25 Business Plan and has resulted in us being widely seen as leading in innovation, both within the water sector and beyond.

Innovation culture

Our innovative culture has matured and more of our employees are able to play an active role. We have established 'hub leads' for each of our operational directorates, which is an effective way of communicating new ideas to the right audience and hearing more of what is needed from the business. The number of employees engaging with innovation has grown significantly and we now have almost 100 innovation ambassadors from all areas and levels of the business.

This has also enabled us to have a better relationship with our supply chain as we are faster at responding to opportunities and can give clear feedback. We were voted number one in the British Water Supply Chain Survey for innovation. We also share our innovation news monthly through our Innovation Connect newsletter and invite external organisations that excel in innovation to a quarterly Innovation Connect virtual call.

Training and knowledge sharing is a key aspect of the innovation ambassador group which brings in an inspiring external speaker each month and invites sharing across business units internally. We have continued to upskill the organisation with our core skills training programme and the NWG Innovation University, which offers bite-sized training covering all the core elements of innovation.

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

We are an innovative and efficient company.

Open data

The water industry holds vast data sets that can play a key role in unlocking value for the UK from open data. Two years ago, we decided to influence a move towards open data for the industry.
We named this initiative Stream and it will allow the water industry to share useful datasets in a secure, standardised and easy to access way. Together we are working hard to define common data standards so that we can drive performance improvements and adapt more rapidly to support reliable and resilient services.

Open data means we will be able to identify efficiencies through detailed analysis of our asset performance and supply chains, and we will be able to learn and work together as we tackle sector wide challenges such as adapting to climate change. While we have already done a lot to unlock value from our data, we know there is more to be done and we can and should go beyond sharing our data with other water companies.

The industry needs to form new collaborations to find new solutions to best support our customers. For example, working in partnership with agriculture we can improve soil health and river water quality. If we share more data with our supply chain, we can reduce greenhouse gases even further. Open data has a big role to play in helping us to tackle these issues. Our **Open Data strategy** encompasses our approach.

Innovation Festival

The Innovation Festival returned for the sixth year, as an in-person event again, and was our most successful to date in terms of engagement across the water sector and beyond and quality of the output. The Festival is an important element of our innovation programme and is key for idea generation, acceleration of existing projects and establishment of consortia for future external funding bids.

These events are now very established and highly anticipated nationally and globally. The novel format of the festival also enables us to attract a diverse audience which is a critical part of design sprints. Our latest festival hosted 31 activities, 27 sprints and four data hacks. Five of the sprints were online to keep our festival as inclusive as possible. The festival attracted 600 organisations with participants from over 33 countries, and we had four sprints with global hubs including USA, India, Ireland, and Australia.

Since our first Festival we have taken over 250 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. The projects coming out of the Festival cover many aspects of the business, including the potentially sector-changing no dig pipe fix product which we have already trialled in the business with great promise.

Value from Innovation

We have continued to focus on driving value from innovation at speed and scale. We actively encourage employees to come forward with innovative ideas and support their development. A great example of this is the Invest Quest competition, which enabled the micro-algae treatment process to grow to three times its original design. We are focusing support on the transformational ideas such as the Tipping Point asset health tool (see case study on **page 40**), no dig pipe fix technology and the National Underground Asset Register, which are all now ready for business-as-usual deployment.

In addition, the Pressure Vessel solution, which was home grown in Essex & Suffolk Water, is now making a difference to reduce interruptions to supply. This team won the Innovative award at our employee awards scheme which to commends employees for doing a great job or going the extra mile. These are a few examples of how innovation is really making a difference to our customers, now and for a more resilient future.

Innovation Fund

During 2022/23 there has been another round of the Ofwat Innovation Fund and we have been active in both the Catalyst and Transform rounds. We were successful in four of our bids:

- **Stream** – the second phase of the open data project which will support collaboration to drive innovation and improve sector performance.
- **Water Literacy Toolkit** – to raise the awareness of the value of water and connect society's water use to the environment and its role in reducing the impacts of climate change.
- **Root growth prevention technology** – development of a coating which repels tree roots away from the sewer network, without affecting tree growth, to prevent blockages and pollution incidents.
- **Hydro Powered Smart Meter** – concentric meter which uses the flow of water to provide limitless power to the meter enabling live data to be provided to the consumer and to utilities, enabling action to reduce consumption and prevent leaks.

Previously in the funding programme we have secured over £12.5m funding for eight projects which are progressing. The Organics Green Ammonia project, which turns ammonia into green hydrogen fuel, is being commissioned at Howdon wastewater treatment works. The pilot for the Support for All platform, to help vulnerable customers, has been run successfully and we are now exploring opportunities to scale this up. The National Leakage Research and Test Centre is an ambitious leakage test centre for the sector and is in the design phase. Stream, the transformational open data platform has completed phase one work and will now progress to the second phase.

Case study

A new approach to asset management

The water industry has a lot of long-life assets, some of which when built can be expected to last 70 to 100 years with the appropriate care and repair. A new tool, initially developed at our Innovation Festival 2021, allows us to be more efficient and estimate when replacement is a better option than repair.

Our entire asset base is worth £28bn, and much of it has an expected life span of decades - or even a century. To achieve that, assets need to be properly assessed and maintained, with repairs carried out promptly on those assets which are aging or damaged.

Above Ground Civils Structures - assets often made from reinforced concrete - make up about 15% of our asset base.

As those assets age, it's important to keep track of how rapidly they are deteriorating, and while tools exist to do that, none of them can predict the point at which replacement becomes more cost effective than repair.

We set that challenge to the innovators at our Innovation Festival, and working with Wood Group PLC (now part of WSP), we developed our Tipping Point Tool.

The tool allows us to predict when assets will need to be replaced, building resilience and meaning we can focus our investment programme where it's needed most.

Before developing the tool, we needed specialists to visit and make on-site inspections before then extrapolating what was found across our whole asset base.

With the Tipping Point Tool, those predictions are far more accurate and reduce the risk of large scale asset replacements being required over a short period of time - something that would be expensive, and potentially undeliverable.

Instead, we are able to plan and focus investment effectively.

People

Great place to work

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

In November 2022 we participated in the Great Place to Work survey, inviting all colleagues to share their views. 87% of colleagues provided their feedback, with 73% agreeing that this is a great place to work. Feedback from colleagues showed increased engagement and the organisation was again awarded Great Place to Work Certified Employer Status.

Creating multiple channels for feedback and ideas is key to a positive working relationship. We share information and opportunities through a range of communication channels including our weekly H2info e-bulletin, intranet (The Source) and Yammer. Our Diversity and Inclusion Networks have increased in 2022 to create and maintain positive two-way conversation and are helping us handle different and emerging topics whilst improving how we best support all of our colleagues. Our key action networks are WiSTEM (Women in Science, Technology, Engineering and Mathematics roles), Rainbow Support Network (LGBTQ+), REACH (Race, Ethnicity and Cultural Heritage) and Thisability (Physical disabilities and neurodiversity).
Our Respect at Work Policy seeks to ensure that all our current employees and potential employees are treated with respect.

Team Talk events played an important role in getting all colleagues discussing key business topics ensuring everyone comes together to discuss performance and key areas of focus. After a session with our CEO, our leaders cascade to their teams with the support of a pack including videos and interactive activities to bring the messages to life.

During 2022, 60 interactive Employee Roadshows also took place which gave all colleagues the opportunity to hear key messages, celebrate success and milestones and importantly share their ideas, ask questions and raise any concerns directly. Roadshows were hosted by our CEO, Heidi Mottram, and our Executive Leadership team.

We are seen as a great place to work.

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

Early Careers Strategy

We are committed to providing opportunities for people to join NWL and kickstart their career in the water industry. Our Early Careers Strategy ensures we have the right people in the right roles with the right skills to support our national leader vision today and in future years to come. During the year we have:

- Provided 33 apprentice opportunities with a 99% retention rate post-apprenticeship;
- Recruited 22 undergraduate students to work with us during their placement year in a variety of roles across the business;
- Engaged with 300 students as part of our 2022 Innovation Festival, through design sprints, daily hacks and STEM (Science, Technology, Engineering and Mathematics) activities; and
- Provided work experience opportunities to 48 students, with ten of those students attending our first STEM programme in our labs at Horsley. This was two days work experience for students who wanted to explore a career in science. Students were given the opportunity to shadow our experienced scientists, tour our treatment site, improve their CV, and learn more about NWL.

Our work experience programmes align with our ambitions as part of our Together for Inclusion Diversity and Equity (TIDE) strategy. We have worked in partnership with East College Durham to provide internship opportunities for students with neurodiversity requirements. Students worked on a variety of projects producing media content for our social media campaigns and employability competitions. We will continue running this programme in 2023.

People development

Our leaders and managers have access to a range of development and support to enhance their leadership practice and build high performing teams. This includes joining a management induction programme, our leadership masterclass series and management coaching. As everyone's needs are different, our blended development offer is helping to create a great place to work.

Diversity and Equal Opportunities

We developed our TIDE strategy in 2021 and have developed it further during the year. The strategy sets out our ambitious targets that will see us become a more diverse organisation, which truly represents the communities we serve. Our targets for 2025, and performance over the past three years, are shown in the table below:

		Target 2025	2020/21	2021/22	2022/23
Inclusion	Gender	>35% of colleagues are female	32%	32%	33%
	Ethnicity*	4.3% of colleagues are non-white	1.2%	1.9%	2.3%
	Disability*	>6% of colleagues with a reported disability	4.6%	4.5%	6.7%
Equity	Pay Fairness	Gender Pay Gap <7%;	15.7%	11.0%	10.5%

* based on Great Place to Work demographic data gathered in annual employee survey

We continue to provide apprenticeship opportunities for colleagues looking to expand their career and skills and have clear development plans in place for colleagues carrying out technical roles, e.g. Competent Operator Schemes in the water and wastewater teams.

We have a number of colleagues participating in external talent and development programmes where they learn new skills and enhance work skills needed now and in the future to support their career development. Colleagues can access either a mentor or a career coach for support developing their career. We currently have trained career coaches in the business with over 50 colleagues receiving career coaching during 2022 and a further 100 receiving mentoring.

We offer a masterclass series each year to managers and leaders which consist of sessions focusing on a wide range of skill areas. During the year over 700 colleagues attended a masterclass to develop their skills further in areas such as complex problem solving, coaching and embracing change. We have recently launched two new online learning platforms to provide colleagues with access to thousands of learning materials covering a wide variety of topic areas. We've also provided colleagues with training on Microsoft applications and other digital software packages to ensure their digital skills continue to advance.

Since launching TIDE, and by monitoring our recruitment and selection practices to understand how well we are reaching a diverse talent pool and ensure the elimination of bias in our processes, we have increased the number of applications from women. This has carried through to shortlisting and appointment. We have also increased numbers of applications of candidates from Black, Asian and Minority Ethnic Groups.

A design sprint at our 2022 Innovation Festival focused on how we could make the water industry more diverse. The outcome has been a programme which will see us working with selected schools in our regions which have high diversity to develop skills and help young people learn about the water industry. The aim of these engagement programmes is to attract a diverse workforce to the water industry.

NWL is fully committed to developing and maintaining a working environment in which everyone is treated fairly, with dignity and respect and this is set out in our Respect at Work Policy. We welcome job applications from all parts of the community and it is our intention that all job applicants and employees are treated equally, regardless of their age, ability, marital or partnership status, race, religion or belief, gender or sexual orientation.

Gender Diversity and Pay Gap

Gender Diversity at 31 March 2023

Name	Female	Male
Board	3	7
ELT	5	5
Full Company	1,032	2,132

We are committed to the principle of equality of opportunity and equal treatment for all our employees. We published our gender pay gap figures in our Gender Pay Report April 2023, which is available on our websites. We continue to be a sector leader on gender diversity; 33% of our overall workforce and 35% of our managerial team are women. We continue to adopt practices to ensure senior selection offers us the best opportunity to create a diverse ELT, which has a 50:50 gender balance.

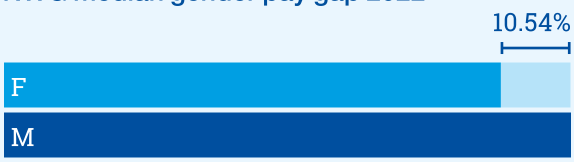
In 2022 we have achieved a further annual reduction in our Gender Pay Gap through our focused work centring on attraction, selection and career management. However, we recognise our gender pay gap is still there and still needs to be tackled. One of the key reasons behind it is that operational roles, that often include additional premiums because they require working in antisocial hours, are primarily held by males; while support roles, which largely don't attract these premiums as work is more typically in normal daytime hours, are more commonly held by females.

Our data is showing us that where we have been able to closely manage and implement changes to our approach to recruitment and careers we are seeing progress, particularly around women in managerial roles. However, we still need to increase female representation in most areas of our business. Our broader TIDE work has been helping us create a more inclusive and open culture and this work is contributing to a shift in gender representation and career progression. Currently 35% of our apprentices and industrial placement students are females, with work experience programmes planned to attract more females to our early career roles.

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

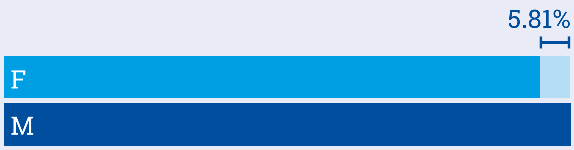
The mean gender pay gap is the percentage difference in the average hourly pay for women compared to men. The median pay gap is the difference between the hourly pay rate for the median woman compared to the median man.

NWG median gender pay gap 2022



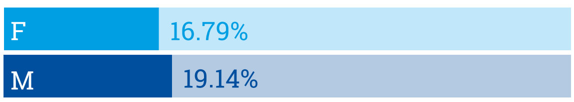
NWG median bonus gap 2022

NWG mean gender pay gap 2022



NWG mean bonus gap 2022

Proportion of men and women paid a bonus



Case study

Networks and Let’s Talk About Us

Delivering cultural change requires us to develop an openness to discuss topics that can be seen as challenging and/or new.

In 2022 we rolled out a programme of events called Let’s Talk About, engaging our ELT and colleagues right around our business.

These include sessions on race and ethnicity, sexual orientation, neurodiversity and violence against women, which have opened up positive conversations within the workplace based on improved understanding.

Colleague support networks have played an important role in organising and hosting sessions and continue to bring value to our organisation.

Our action network groups are:
- WiSTEM – Women in Science, Technology, Engineering and Mathematics roles
- Rainbow Support Network – LGBTQ+
- REACH – Race, Ethnicity And Cultural Heritage
- Thisability – Physical disabilities and neurodiversity

These network groups are an effective way to make sure that the voices of colleagues from under-represented communities are heard, respected and considered.

They exist primarily as a safe space for colleagues to discuss issues that affect them both inside and outside of work, with the view of generating more inclusive environments.

Those who do not have direct lived experience but are supportive of these issues are also invited to join monthly meetings as allies.

They listen, learn and engage with colleagues on the issues that affect them and the unique contributions they make to our organisation. Their support is important as we develop support networks across the organisation.

Each colleague-led network group has an Executive Sponsor from our ELT, who oversee the development of the groups and provide support where applicable.

Health and safety

It is our aspiration and ethical responsibility to make sure that everyone goes home safe every day, which extends to our employees, supply chain partners and customers.

The business had a 20% reduction in lost time accidents and 36% reduction in reportable incidents compared to the previous year. While this is encouraging, the business continues to learn lessons from each accident or near miss. The learnings from each lost time accident and each high potential incident are overseen by an operational director and the learnings and actions are shared across the business. Any actions identified from the incidents are tracked by the ELT on a monthly basis. Health and safety is the first item on the agenda at each Board meeting.

We continued to see fantastic engagement with our established safety awareness tools within the business and our people voluntarily carried out 118,224 ‘60 second checks’ and 14,031 Covid 60 second checks, held 7,727 safety conversations and 3,619 hazards were spotted and reported within the business. All of these measures demonstrated an increasing trend compared to the previous year. Our managers and leaders conducted 3,966 safety visits and 3,117 contractor safety audits demonstrating a commitment to visible safety leadership.

The business launched a new process for managing high risk activities through a point of work specific risk assessment tool during 2022. Employees completed over 9,000 of the high hazard risk assessments while working on our assets, which control risks associated with working at height, confined spaces, chemical handling, lifting operations, jetting, mobile plant, isolations of plant, hot works and excavations. The health and safety team continue to perform a programme of assurance visits on the business high hazard activities, to ensure effective controls are in place.

Our workplaces are healthy and safe.

Wellbeing

The health and wellbeing of our colleagues is served through our unique ‘Living Well’ platform. Introduced in 2020 to better improve both the access and quality of our health offer, Living Well is a digital platform which holds all relevant resources and services and is accessible 24/7 using work or personal devices. Living Well covers three areas - Mind, Body and Social - and is built in a visual, simple and engaging style. In 2022 we have added to the Living Well offer by launching a Care Concierge Service, a service for any colleague needing support with care for adults within their family.

As part of the Living Well approach to Health, a Women’s and Assigned Female at Birth Health Group was set up in 2022. This colleague-led group has created a platform for positive and open discussion around areas impacting the health of women and complements the Male Health Group set up in 2021.

Our wellbeing offer continues to be recognised as highly innovative and comprehensive, maintaining Better Health at Work Ambassador Status, by the TUC, and ranked as a Great Place to Work UK Best Workplace for Wellbeing.

Communities

Our Purpose statement shows communities to be right at the heart of our business. We serve specific regions in the north east and south east of England and are rooted in these communities. Our employees and their families live alongside and engage with our customers every single day, and our infrastructure runs up and down almost every street in our operating areas. While our communities rely on us to meet their essential needs, we also recognise that strong communities, a strong economy and a strong supply chain helps benefit our business as we work in partnership to achieve shared objectives.

Our Community Investment Strategy is focused on the issues on which our goals as a business align with wider community priorities, and where we know we will achieve more by working in partnership with others in our community. The issues on which we focus are therefore water poverty, the water environment, and water for health.

We look to achieve impact through a number of different types of contribution: financial and in-kind giving, volunteering, educational engagement; and also through playing a leadership role as a key anchor institution in our region. Through doing this we encourage others to join our efforts and leverage more contributions from external partners.

We are building from a strong base, particularly our long-standing practice of committing at least 1% of our pre-tax profit to community causes. Alongside this report, we publish the **Our Purpose** report. This includes key data for measuring our community activity, and detailed case studies on our activity.

Local procurement

Each year we spend around £480m on goods and services, and we aim to generate the most positive ripple effect from this. We set an ambitious goal that 60p from every £1 we spend on goods and services should go to suppliers from our operating areas, and last year our local spending was 60.34%.

We also want to make sure we leverage the greatest possible benefit for our communities through our work with our supply partners. Last year we began measuring the impact our supply chain has on the local economy. Our research found that our suppliers re-spent £138.9m across our operating area. This included £51m spent on employing local people. Our local suppliers created 2,131 jobs and 239 apprenticeships, supported by their contracts with us. They also contributed 72,694 hours of employee volunteering to the communities we work in.

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.

We have integrated social value into our tendering processes and are utilising 23 of the 56 National TOMs (Themes, Outcomes and Measures) to measure our social value impact. The 23 measures we have selected align directly to our corporate goals and aims, strengthening the impact of our procurement activity on local jobs and training, community jobs and volunteering, environmental improvements and social innovation.

Employee volunteering

Our long-standing ‘Just an Hour’ employee volunteering scheme gives each of our team the opportunity to commit a minimum of 15 working hours to support community initiatives. In 2022/23 we supported 297 organisations, with 38% of our employees taking part.

This included 173 of our employees giving a total of 571 hours to carry out beach cleans at 15 different locations across our operating areas.

We also backed a series of Christmas appeals in our operating areas – Mission Christmas in Tyneside, Kids Inspire in Essex and Winter Wonderland in Suffolk. Our people volunteered to donate, collect and deliver gifts, and worked in warehouses to get them ready for distribution to people in our communities.

A team from NWG also stepped up to respond to the humanitarian crisis caused by the war in Ukraine. They launched two appeals to gather aid and medical supplies for families who had fled the conflict, gathering donations from around our business. They loaded these into a series of vans and delivered the items to the Polish-Ukraine border. Across the two trips the team put in over 1,700 hours of voluntary work, including organising distribution points, raising awareness through the media, promoting donations, and completing the 2,200-mile round trip twice.

Bluespaces

Our new approach and investment scheme for improving the water environment in 2020-25 allows us to go ‘above and beyond’ our business as usual activities to work with others to deliver improvements to ‘bluespaces’. These are areas of the water environment that are accessible for our customers. We have an ambition to improve 250km by 2025.

Work started on 128km on bluespaces improvement in the year. Projects supported in the last year include the Tees Valley ‘Wilder Coast’ scheme, working across 17km of bluespaces with coastal water quality monitoring, community engagement, and supporting the protection of internationally important coastal birds and their habitats.

Other projects backed include a floating ecosystem on Newcastle’s Quayside, and the Eye Way of Healing woodland and wildflower project in Suffolk, which includes restoration of a brook and creation of additional aquatic habitat to enhance biodiversity and help mitigate flooding.

Net Zero North East England

We have played a pivotal role in the development of Net Zero North East England, a new initiative aimed at cutting emissions across the North East region. This collaborative approach aims to deliver the goal of achieving net zero carbon emissions at pace, while driving good quality jobs, improved standards of living and enhancement of the North East’s unique regional environment.

We led work to set up the initiative, working with the leaders and chief executives of seven local authorities to secure their commitment to supporting and funding NZNEE, and taking the lead in promoting the initiative to the private sector.
Our chief executive Heidi Mottram has taken on the role of co-chair of the partnership, hosting a high profile launch event for the initiative in November, which was attended by 300 people representing all sectors in the North East.

Supporting careers

We launched Our TIDE strategy in October 2022. As part of this, we are seeking to promote career opportunities across all parts of the communities we serve. Actions include an Innovate Futures Programme consisting of a three-month work experience programme targeted at black and female engineering students.

We have attended 11 careers fairs in our operating regions and encouraged our suppliers to do the same, and we have taken part in a number of activities supporting people with careers advice and employability skills supporting their success in the wider labour market in our regions. These include workshops in schools, mock interviews and STEM events with engineering students.

We supported the Our Past, Our Future STEM Programme supporting families with children at risk of hunger. Students from areas of higher social deprivation were targeted for our personalised work experience programmes for 14-16-year-olds. We also delivered a work experience programme with students from East College Durham who identify as being neurodiverse, giving them the opportunity of an eight-week placement in our business.

Case study

Be the most socially responsible water company

We take our place in the community seriously. That means behaving ethically, sustainably and with social responsibility. We were delighted to be recognised for the twelfth time as one of the World's Most Ethical Companies by Ethisphere - one of just two UK companies on the list - as well as to be the only water company awarded the Good Business Charter.

We aspire to be the most socially responsible water company and this year our practices have again been recognised by significant external accreditations.

Northumbrian Water has been named as one of just two UK companies on Ethisphere's World's Most Ethical Companies list - our twelfth time on the list. Ethisphere compiles the rankings based on issues including environmental sustainability, governance and social responsibility, judging each against set criteria before benchmarking them against others.

We have also been awarded the Good Business Charter, and are - for the second successive year - the only water company to receive the award, based on demonstrating good employment practices, environmental responsibility, fair tax and procurement.

These accreditations are fantastic validation of our community investment strategy, which focuses our financial contributions and our volunteering on key areas including ending water poverty, water for health and protecting the water environment.

During 2022/23, this saw us support a range of initiatives across our operating areas, including Christmas appeals - Mission Christmas in Tyneside, Kids Inspire in Essex and Winter Wonderland in Suffolk - and our Powered by Water schools programme, which delivers messages on the importance of hydration to children.

We have also continued our Water Ranger citizen science programme, working with community groups including Marske Litter Action, Seascapes beach volunteers, Tees Valley Wildlife Trust, Saltburn Countryside Volunteers and the Friends of the Lower Path.

Overall, we reinvest at least 1% of our profits every year into community activities - a longstanding commitment we are proud to have met again in 2022/23.

Reputation

Our reputation is of great importance. In order to achieve our wider objectives, we need to build and maintain trust among our customers and stakeholders. The success of this is demonstrated by our industry leading C-MeX score, which is built on a long-standing programme of building our reputation with a variety of audiences.

Just Add Water is our over-arching brand building campaign. This is informed by data and seeks to support our C-MeX and Net Promoter Score objectives by targeting customers with messaging that improves awareness and perception. By cementing our overall brand reputation, we build the relationship with our customers which is vital for the success of our more targeted behavioural campaigns such as Water's Worth Saving and Bin the Wipe.

We were once again this year rated as the world's 'most ethical' water company, as one of only two UK companies, and the only water and sewerage company in the world, to be named in this year's World's Most Ethical Company list. This is the 12th time we have appeared on the list compiled by the Ethisphere Institute, a global leader in defining and advancing the standards of ethical business practices, which evaluates companies based on their commitment to integrity, transparency, and corporate social responsibility.

Great Place to Work UK also named us in the super large category of the UK's Best Workplaces list. This includes assessing us against factors including values and ethics, customer focus, and careers and development. The rigorous assessment includes a survey of our employees, reflecting our promotion of a healthy workplace culture.

We were also one of the top 100 companies featured in this year's KPMG Customer Experience Excellence report. This prestigious report highlighted our environmental and social commitments and our fight against water poverty in selecting us the only water company in the report, and one of only two utility companies to make the list.

Our customes say we are a company they trust.

For the second year, we achieve the Good Business Charter, an independent accreditation supported by the Institute of Directors, Federation of Small Businesses and the Trades Union Congress, to recognise responsible business practices. Furthermore, Business in the Community's Responsible Business Tracker showed us to be leading in our cohort for Governance and transparency, Supply chain, Digital transformation and Nature stewardship.

In 2023 we were shortlisted for Water Company of the year in the Water Industry Awards. Our other award wins over the year included the Societal Impact prize at the Water Industry Forum awards for our work on developing the National Underground Asset Register, and Innovation category at the Constructing Excellence Awards for the expansion and upgrade of Wolsingham Sewage Treatment Works.

We were delighted to be rated the top company in the industry by the water sector supply chain in British Water's annual UK Water Company Performance Survey, which asks contractors, consultants and suppliers to rate performance in 11 areas, including innovation, professionalism, contractual approach and procurement.

It is important to us that customers have a high level of trust in our governance and assurance arrangements. We have published a **Data Assurance** Summary as part of our suite of annual reporting which describes what assurance we have carried out on our data, reporting any key findings. This directly supports a statement made by the Board, regarding the accuracy and completeness of our data, confirming that it is satisfied that the governance and assurance arrangements it has put in place are comprehensive and robust and have operated effectively throughout the year.

Our assurance framework builds upon our company-wide accreditation, including to: ISO 14001 Environmental Management and ISO 55001 Asset Management.

Water Matters

CCW publishes their Water Matters report each year, based on interviews with hundreds of bill payers. It covers experiences of a wide range of services provided by water and sewerage companies, asking about satisfaction levels, perceptions of value for money, communication, and awareness of additional services. The 2022 report, published in May 2023, shows Northumbrian Water scoring joint top among water and sewerage companies (WASCs) for trust. We were also joint top for overall satisfaction with water supply, value for money of water services agreement that water and sewerage charges are affordable, agreement that charges are fair.

Essex & Suffolk Water is assessed separately and does not score as positively, but was joint top among water only companies (WOCs) for agreement that charges are fair and achieved its highest ever scores for overall satisfaction with water supply and value for money of water services – both well above the WOC average. ESW also scored above the WOC average for trust.

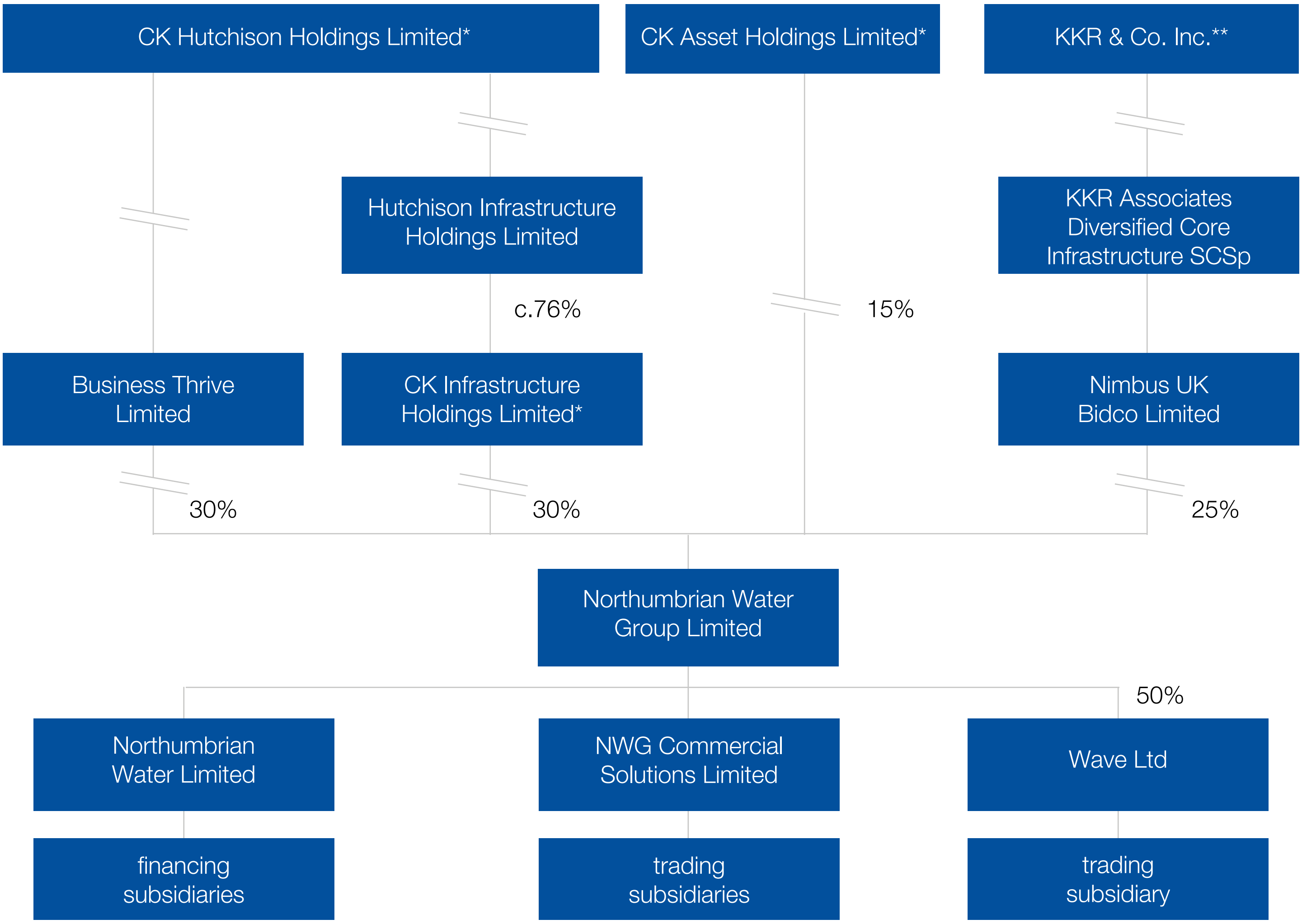
Financial performance and structure

Group structure

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

The chart below shows the summarised corporate structure of the Group. The chart shows the principal intermediate holding companies, which are wholly owned unless otherwise shown. On 22 December 2022, KKR & Co. Inc. indirectly acquired a 25% shareholding in NWGL on a pro-rata basis from NWGL's three other shareholders.

CKHH, CK Infrastructure Holdings Limited (CKI), Business Thrive Limited, KKR & Co. Inc., KKR Associates Diversified Core Infrastructure SCS, Nimbus UK Bidco 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
** Company listed on the New York Stock Exchange

Financial performance

The financial KPIs we report in our balanced scorecard on **page 24** reflect the financial covenants underpinning our committed bank facilities and regulatory gearing, which are reported at each Board meeting. The gearing and interest cover KPIs remained better than the target for the year.

The Company's income statement, statement of comprehensive income, balance sheet, statement of changes in equity and cash flow statement are set out on **pages 111** to **114**. The Financial Statements have been prepared on an historical cost basis in accordance with Financial Reporting Standard (FRS) 101, reflecting International Financial Reporting Standards (IFRS) with reduced disclosures. The key accounting policies are summarised in **note 1** to the Financial Statements on **pages 115** to **123**.

Revenue was £849.9m for the year ended 31 March 2023 (31 March 2022: £780.1m), an increase of £69.8m. (**See note 2** to the Financial Statements). This mainly related to an increase of £65.5m in combined household and non-household revenue, which included the impact of the redetermination of the FD by the CMA and 4.6% CPIH inflation on wholesale revenue.

Operating costs, including capital maintenance costs, for the year ended 31 March 2023 were £638.3m (31 March 2022: £591.8m), an increase of £46.5m. (**See note 3** to the Financial Statements). The increase is largely due to the unprecedented increase in power prices experienced during the year and a consequential increase in chemical prices.

The Company's policy is to maintain a balance of medium to long term hedges and shorter term purchases. The Company had hedging arrangements in place for a proportion of its usage, through forward purchases and a wind power purchase price agreement, however, the remainder was exposed to market price increases, resulting in a year on year increase in power costs of £32.9m. During the year, the Company implemented an updated Energy Hedging Strategy to manage future energy cost volatility.

The high power prices also affected the production costs of chemicals used in our treatment processes resulting in £12.4m increase. The bad debt charge increased by £4.7m, due to the prior year including a release of a provision in respect of Covid-19. Underlying cash collection performance has remained strong.

Following a consultation process with members, the NWPS defined benefit pension scheme, was closed to future accrual of benefits with effect from 31 May 2022. Members were enrolled in the LifeSight defined contribution scheme.

Net interest payable was £260.6m in the year ended 31 March 2023 (31 March 2022: £170.1m). The increase of £90.5m is mostly due to significantly higher accretion on index-linked bonds, reflecting the increased level of inflation throughout the year. **See note 6** to the Financial Statements for further detail.

The higher inflation-linked interest charges resulted in a loss before taxation for the year ended 31 March 2023 of £49.0m (31 March 2022: profit of £18.2m).

As a result of the loss before tax and the higher tax reliefs available for capital expenditure under the temporary 'super deduction' rules there is a taxable loss in the year resulting in a deferred tax asset for losses carried forward. The current tax charge of £3.1m for the year ended 31 March 2023 (31 March 2022: credit of £9.7m) includes a £2.1m credit prior year adjustment to recognise the utilisation of tax losses carried back to previous years previously assumed to be carried forwards. There was also a deferred tax credit for the year ended 31 March 2023 of £25.0m (31 March 2022: charge of £171.7m). The significant reduction in deferred tax charge is due primarily the scale of the prior year charge which reflected a restatement of deferred tax from 19% to 25% in the year, reflecting the decision by government to increase the rate of corporation tax with effect from April 2023. Further details of the net tax credit are provided in **note 7** to the Financial Statements. The overall position is a loss after tax for the year ended 31 March 2023 of £27.1m (31 March 2022: loss of £143.8m).

A final dividend of £55.4m was paid for the year ended 31 March 2022, which was paid by reference to the dividend policy in place at the time. During the year, the Board approved an updated dividend policy (**see note 8** to the Financial Statements) which recognises the company's commitments to various stakeholders including customers, employees, and investors. The updated policy aligns dividends more closely to performance for customers and the environment, as well as taking into account longer term financial resilience and the underlying risk profile of the business.

The Board applied the revised dividend policy in the approval and payment of an interim dividend of £55.4m for the year ended 31 March 2023 and, after the balance sheet date, a final dividend of £25.3m. More information is provided in **note 8** to the Financial Statements.More information is provided in **note 8** to the Financial Statements.

Capital investment

Total fixed asset additions in the year ended 31 March 2023 were £329.2m (31 March 2022: £282.2m), including intangible assets. Around £213m of this investment related to maintaining the health of our assets to ensure the continued provision of sustainable water and wastewater services in the areas we serve, as well as supporting growth from developers in our areas.

Investment in our AMP7 enhancement programme has increased during the year as many of our large environmental improvement schemes have entered their construction phase. We have also continued to invest to improve resilience of our water and wastewater assets, as well as cyber resilience, and smart metering.

Capital structure and liquidity

In April 2022, the Board approved an updated Treasury Strategy setting out a framework for raising c.£1.3bn of funding over the next four years. Following this, the Company established a £6bn European Medium Term Note (EMTN) programme enabling more regular and efficient issuance of bonds. Under the EMTN, the Company, through its financing subsidiary NWF plc, issued £400m of bonds, with a 12 year tenor, in October 2022, and a further £350m, with an eight year maturity, in February 2023. These funds were used in part to repay a maturing £350m bond in February 2023.

In addition, the Company signed fixed rate loan agreements with two of its relationship banks, for a combined value of £150m, which were undrawn at the balance sheet date and subsequently drawn in June 2023.

The Company's long-term debt structure therefore remained largely unchanged with 61% fixed at an average rate of 4.36%, 38% index-linked at an average real rate of 1.19% and 1% on a variable rate basis, after allowing for hedging instruments. The blended average nominal rate for the Company for the year ended 31 March 2023 was 8.21% (31 March 2022: 6.25%), an increase on the previous year due to higher inflation on index-linked debt.

We have a committed bank facility of £450m for the purpose of maintaining general liquidity with a maturity date of December 2025. The facility was undrawn at 31 March 2023. In addition, at 31 March 2023 the Company had a short-term working capital loan from NWGL, its parent company, of £33m.

Our RCV, on which our allowed regulatory revenue is based, increased to £5,097.4m at 31 March 2023, from £4,547.8m at 31 March 2022, reflecting growth from CPIH and RPI indexation.

The Company gearing, which is measured per the financial covenant for the committed facility, reduced from 69.8% to 68.3%, well within the target of 77.5%. Regulatory gearing also reduced from 69.7% to 68.3%, below our target level of 70.0%. The reductions reflected the significant RCV growth. The interest cover ratio increased from 2.3x to 3.2x. The prior year figure was lower than historic levels as a result of the high index-linked accretion charge in the year being included in the calculation. During the year, we requested that the interest cover ratio be amended to exclude index-linked accretion, which was agreed.

The Company has investment grade credit ratings. In October 2022, Standard & Poor's (S&P) downgraded NWL to a rating of BBB (stable outlook) citing the effect of rising inflation and acceleration in capital expenditure, added to already challenging operating conditions for the current regulatory period, on the Company's credit metrics. Moody's affirmed its rating of Baa1 with stable outlook in April 2023. We report on our financial resilience in our viability statement on **pages 105** to **109**.

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

Funding risk
The level of capital expenditure which NWL is obliged to incur is such that we cannot be wholly cash financed by internally generated sources. As a result, we must rely upon raising additional finance on a regular basis, to be principally used to fund the long-term assets required by the regulated business. In order to raise this finance efficiently, the Board's aim is to retain prudent investment grade credit ratings. A reduction in the credit rating may restrict future sources of funding, increasing the associated cost of new borrowing, though the downgrade by S&P to BBB did not have a noticeable effect on the bonds raised during the year.

Liquidity risk
The Company's policy is to have available standby committed bank borrowing facilities with a value of no less than £50m and with a bank agreement availability period of no less than three months. At 31 March 2023, NWL had £450m (31 March 2022: £283m) of undrawn bank facilities, provided by a group of five key relationship banks, which mature in December 2025.

Interest rate risk
The Company finances its operations through a mixture of retained profits and borrowings. It borrows at both fixed and variable rates of interest and, on occasion, uses derivatives to generate the desired interest profile and to manage its exposure to interest rate fluctuations. The Company's policy is to keep a minimum 50% of its borrowings at fixed rates of interest. At 31 March 2023, 61% (31 March 2022: 60%) of the borrowings of the Company were at fixed rates of interest. Index-linked borrowings are treated as variable rate debt.

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

Foreign currency risk
The Company's policy is that any foreign currency exposure in excess of £100,000 sterling equivalent of a transactional nature, or £3m sterling equivalent of a translation nature, should be covered as soon as they are identified. At 31 March 2023, the Company had forward foreign exchange contracts of £4.0m (31 March 2022: £6.3m) for the purpose of hedging the foreign currency risk of committed future purchases (**see note 19**).

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

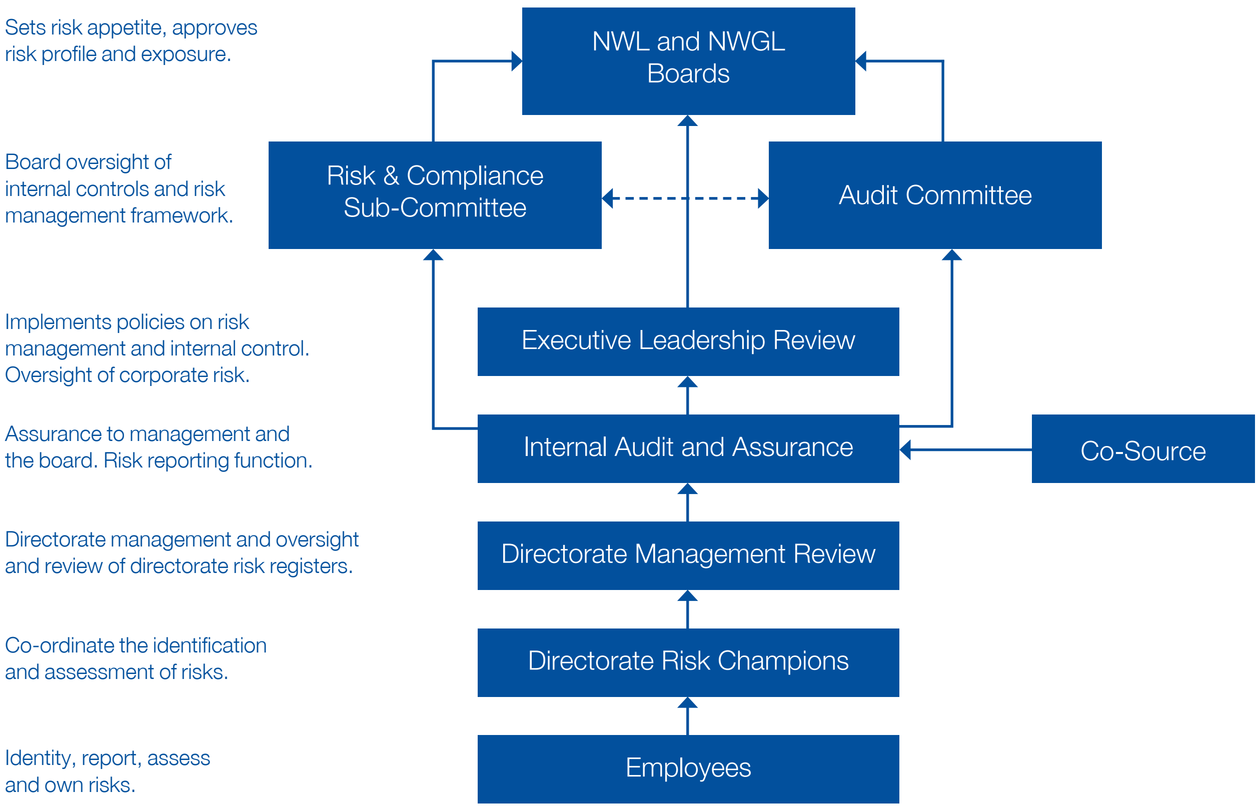
Risk report

Risk Management Framework

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

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

The diagram below describes the overall approach to risk management and responsibilities of various groups within the process.



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

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

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

We define strategic risks as those which are foreseeable, but not with sufficient clarity to be assessed within the corporate risk model. These are captured in a Strategic Risk Register and a sub-group of the Board reviews these strategic risks annually, most recently in December 2022. These risks are also reported to the R&CSC at each of their meetings and can be amended throughout the year.

Principal Risks and Uncertainties

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

The conclusions of this assessment are summarised on the heat map below. This shows the current exposure of each of the principal risks and an indication of whether the risk is increasing, stable or reducing. The table on **pages 58** to **62** then describes each of the principal risks in more detail, along with our approach to mitigating these risks. The risks are not set out in order of priority. These principal risks have also been considered in our assessment of financial resilience, as set out in our viability statement on **pages 105** to **109**.

Changes to Principal Risks

The Board, based on the work of the R&CSC, decided that the Principal Risks remained the same as the prior year, albeit the description and mitigation of the risks has been updated. Specifically, the 'Customer trust and confidence' risk has been renamed as 'Customer and stakeholder trust and confidence' to recognise the wider public interest in matters such as storm overflows.

Emerging Risk – Recruitment and Retention of Employees

The demand for key skills in fields such as engineering and IT is making recruitment and retention of people more challenging. This is particularly noticeable in our ESW operating area due to its proximity to London.

Operational risks

Description of risk	Mitigation	Change from prior year
Health and safety The nature of our operational and construction workplaces means that there is a significant inherent risk to the health and safety of our people and supply chain of which we are acutely conscious. There is also an inherent risk that members of the public gain unauthorised access to sites such as reservoirs, placing themselves at risk. Our workplaces are healthy and safe.	The health and safety of our people, contractors and members of the public is our highest priority. Health and safety matters are given a high priority at all meetings of our ELT and Board. Long-term planning and targets are set to drive continuous improvement. This is underpinned by our focus on improving behavioural safety and creating a great safety culture. Our health and safety management system defines clear arrangements and responsibilities throughout the Company. This is supported by a programme of leader safety visits, compliance audits, training and safety awareness tools. All accidents and incidents are investigated and follow up actions tracked. Security fencing and warning signage is in place where appropriate.	Risk stable (focus on continuous improvement).
Customer and stakeholder trust and confidence Our customers are at the heart of everything we do and failure to deliver our commitments to customers and the environment, or negative media coverage resulting in a poor public perception of our reputation, could damage the trust and confidence of customers and other stakeholders. Significant public and media attention on the impact of our sector on the water environment, including storm overflows across the sector, has an adverse impact on our reputation. Our customers tell us we provide excellent customer service and resolve issues quickly. Our customers say we are a company they trust. Our customers say our services are good value for money and we work hard to keep water and wastewater services affordable for all.	Our focus on getting things right first time, fast time, every time supports our commitment to delivering a world class service. We have invested in significant improvements in our customer facing systems and the digital experience we offer to our customers, and continue to invest in our people. We continue to improve our support for customers in vulnerable circumstances, through our Inclusivity Strategy, StepChange partnership and new affordability tariffs. We plan to take this further through our commitment to eradicate water poverty across our supply areas. We have set out nine pledges in A Vision for our Coasts and Rivers and are reporting our progress against them.	Significantly increasing risk (significant attention on storm overflows).
Water service failure A problem in our water system could cause either a major loss of supply or for unfit water to be supplied. This could have many potential causes, including the failure of a strategic water main or treatment works, loss of power supply or contamination of a service reservoir. The increase of micro plastics pollution is an increasing concern. We always provide a reliable supply of water. Our drinking water is clean, clear and tastes good.	We have well developed business continuity plans in place for managing incidents, down to a site-specific level. These are regularly tested. We restrict access to our treated water network through authorisation and physical security measures. We are taking steps to understand the impact of micro plastic pollution in the water environment. Our long-term planning, as set out in the **WRMP**, aims to address long-term supply/demand challenges.	Risk stable (continued focus on water quality and micro plastic pollution).

Description of risk	Mitigation	Change from prior year
Water service failure A problem in our wastewater system could cause either significant environmental pollution or flooding of customer properties. This could have many potential causes, including insufficient network capacity to cope with severe weather events, misconnected properties and the consequences of sewer blockages or collapses. The increase of micro plastics pollution in the environment is an increasing concern. Our sewerage service deals with sewage and heavy rainfall effectively	We have set out nine pledges in A Vision for our Coasts and Rivers and are reporting our progress against them. We continue to invest heavily in preventing pollution and sewer flooding and have a pollution management programme with multiple workstreams to tackle the root causes. We engage with our customers and local communities to deliver sustainable solutions. We are also investing significantly in proactive maintenance and cleaning of the network, real time monitoring and analysis, flooding mitigation and investment to increase network capacity. Our long-term planning, is set out in our **DWMP**.	Risk stable (continued focus on preventing pollution and flooding).
Supply chain failure Risk of supply chain disruption because of people shortages following economic upheaval over recent years, impacting on the availability and price of key commodities. Significant increase in demand for supply chain resource across the sector to deliver step change in AMP8 capital investment. 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	In response to the anticipated scale of the AMP8 investment programme, we have begun engagement with our supply chain partners to secure the resources that will be required to deliver the programme. This includes investigating options to start work earlier. In the short term, the most significant risk relates to availability of chemicals. We manage this risk collectively across the UK water sector and monitor supply issues.	Increasing risk (due to significant increase in AMP8 investment programme).

Description of risk	Mitigation	Change from prior year
Asset health deterioration Insufficient funding for asset maintenance investment over previous decades impacts on asset health and performance. Inadequate information about our asset base may result in sub-optimal investment decision-making leading to deterioration in asset health and service performance. We are resilient and provide clean drinking water and effective sewerage services, now and for future generations	We are ISO 55001 (Asset Management) certified on a company-wide basis, and follow best practice in the long-term management of our assets with outcome-based strategic planning. We are investing in improving our understanding of long term asset health to improve investment decision making and prioritisation. Our Asset Management Steering Group is overseeing a prioritised asset health inspection plan. We will address the case for increased asset maintenance investment in our PR24 Business Plan.	Increasing risk (funding allowances for asset maintenance insufficient).
Effect of climate change In the short term, climate change may cause more volatile weather conditions which could impact on customer service through disrupting water supply or causing sewer flooding. Over the longer term, climate change could impact on water resources resilience and the integrity of our assets. This may be exacerbated by growing population and ongoing urbanisation. We are resilient and provide clean drinking water and effective sewerage services; now, and for future generations We take care to protect and improve the environment iin everything we do, leading by example	Our approach to mitigating short-term risks of service failures on our water and wastewater businesses are set out in the risks above. We consider the longer-term impacts of climate change in our long-term planning, such as our WRMP and DWMPs, and identify long term solutions to future potential resilience issues well in advance. Our Resilience Framework provides a structure for us to achieve resilience in the round by taking an integrated and systematic approach to understanding risk and resilience challenges across all of our business areas and how they interact.	Increasing over the long term.

Compliance risks

Description of risk	Mitigation	Change from prior year
Cyber security Key business systems could be lost as a result of a malicious attack or failure of cyber security. Sensitive data could be released in breach of the Data Protection Act, General Data Protection Regulation (GDPR) or Environmental Information Regulations (EIR). May not comply with obligations under the Networks & Information Systems Directive. Our customers say we are a company they trust.	Our Information Security policy sets out our commitment to the continuous improvement of information security controls and culture throughout the business. This is delivered through software and hardware access controls, additional web-based security and clear policies and procedures and user awareness. We are progressing well with implementing our enhanced cyber resilience strategy in AMP7, including 24/7 Security Operations Centre, monitoring, enhanced anomaly detection, privilege management and next generation security tools. Data is protected through access controls, laptop encryption and awareness briefings. A ten-point data protection action plan has been developed to further mitigate the risks.	Stable, following investment in enhanced security.
Regulatory and political changes There has been an increasing trend in regulatory interventions with changes to the Licence and regulatory methodology could. This could impact adversely on the balance of risk and return, increasing uncertainty and reducing investor confidence in the stability and predictability of the regulatory framework. A change in future government could introduce significant changes in policy. Increasing demands and expectations from all industry regulators. Our finances are sound, stable and achieve a fair balance between customers and investors.	Externally driven, but we continue to engage in robust dialogue with regulators and others on policy and rules to try to prevent unintended consequences or constraints on our ability to manage our assets and deliver our services. We continue to engage with all political stakeholders, both directly and through Water UK, to ensure that any debate is well-informed. We engage actively with all regulators, including Ofwat, DWI and EA.	Increasing risk (increased regulatory intervention introducing uncertainty).

Financial risks

Description of risk	Mitigation	Change from prior year
Funding and liquidity risk A key funding risk would be an inability to access future funding at acceptable rates due to market uncertainty. Future borrowing costs could increase as a result of a credit rating downgrade. Liquidity risk could arise due to breaching financial covenants on committed facilities. Scale of AMP8 programme will increase funding requirements significantly. Our finances are sound, stable and achieve a fair balance between customers and investors.	The Board has approved treasury policies which set out how we manage treasury risks (see **page 54**). Our five-year plans identify future borrowing requirements and we plan our financing strategy accordingly over this time horizon. This is supported by £450m of standby committed borrowing facilities, which was undrawn at 31 March 2023. We are committed to maintaining our investment grade credit ratings and manage our financial plans accordingly. Our viability statement on **pages 105** to **109** reports on the financial resilience of our plan over a seven year time horizon. We are addressing longer term funding requirements as part of our PR24 Business Plan work.	Risk stable (in short term). Increasing risk over time.
Financial performance A failure to deliver our financial plans could impact on expected shareholder returns. This could result from significant adverse movements on costs, interest or tax or a failure to deliver efficiency commitments. A sustained period of low inflation could depress RCV, increasing gearing. Our finances are sound, stable and achieve a fair balance between customers and investors.	We are implementing a range of efficiency actions for both operating and capital expenditure and progress is reported monthly to ELT. We maintain more than 50% of our borrowings on fixed rates, providing certainty. Energy prices have stabilised and we have increased our forward hedging of power. Our viability statement on **pages 105** to **109** reports on the financial resilience of our plan over a seven year time horizon.	Risk stable.

Approved by the Board and signed on its behalf:

H Mottram CEO
14 July 2023

Governance Report

Chairman's Introduction

The Board recognises that it is a privilege to be entrusted with providing essential services to millions of customers in NWL's operating areas each and every day. With this comes a series of important responsibilities to our communities and the environment, as well as the opportunity to contribute positively to them. We are a large employer in our operating regions, a buyer of goods and services, and have significant influence as an 'anchor institution'.

On **pages 72** to **79** below, we explain how we meet the four high-level objectives Ofwat expects regulated companies to deliver under its principles for board leadership, transparency and governance. The Board has agreed that it would also be appropriate to report compliance with the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles), and that our standards of corporate governance should remain at least as high as in previous years and higher wherever appropriate.

As a private company with NWL's ownership structure, we believe it is consistent with good corporate governance for there to be significant shareholder representation on the Board, including the Chairmanship. We also accept that there needs to be an appropriate balance. We took the opportunity to refresh the Board in 2021 and appointed five new INEDs (including the Senior INED). Since we have four Non-Executive Directors (NEDs), including me as Chairman, and one Executive Director (being the CEO), this makes the INEDs the largest single group on the Board.

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

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

The Board functions as an integrated whole. All Directors have the same legal responsibilities and each Director understands his or her individual responsibility to act in the best interests of the Company, as well as the importance of the service provided to our customers and our environmental responsibilities. All Directors play a full part in Board meetings and shape the Company's strategy, as well as ensuring that customers' interests are fully considered in any investment and operational decisions. The composition of the Board ensures a sound balance of experience, knowledge and independence and that decision making is not dominated by any single group.

Alan Bryce, our Senior INED, sets out in his report (on **page 66**) how the INEDs are fully involved in all the main aspects of NWL's governance and, throughout the year, were invited to all the Board meetings of our holding company, NWGL (except in relation to NHH retail business).

In practice, the Company complies with the 2019 Ofwat Objectives and, with very few exceptions, the supporting Provisions. The effective arrangements, which the Board and its Committees have in place to ensure such compliance, are explained in some detail below in the Corporate Governance Report (on **pages 67** to **87**).

A J Hunter
Chairman

Senior Independent Non-Executive Director's Report

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

I am happy to endorse the Chairman's explanation of the key role which the INEDs continue to play in NWL's governance, assurance and decision making. Fellow INED, Richard Sexton, chairs the Audit Committee (AC) and the R&CSC. As and when required, the Board constitutes a sub-group of members, including INEDs, to conduct detailed work on specific areas and to scrutinise and inform recommendations made to the full Board, chaired by me or by a fellow INED. INEDs sit on all sub-groups and committees and are in the majority on the AC, the R&CSC, the Remuneration Committee and the Nomination Committee.

We are therefore fully involved in all the main aspects of NWL's governance and the Board is satisfied that this enables it to ensure that sound governance is maintained.

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

The INEDs have again all taken part in extensive sessions with management on business risk and PR24 planning, have met from time to time without management or the other Directors being present (with and without the Company's auditors) and attended the limited number of other events relating to the water sector, including non executive director events hosted by Ofwat. Beyond the formal work of the Board and its various committees, we have also continued to develop a broader insight into the work of the Company through other meetings and events.

In conclusion, I and the other INEDs believe that the Board and Committees have sufficient independent membership. I am confident that the INEDs will, through their leading role in the Committees, continue to exert significant influence in setting the direction which the Board takes in all key areas of strategy and business planning, monitoring, governance and reporting.

Alan A Bryce

A A Bryce
Senior Independent Non-Executive Director

Corporate Governance

Board Membership

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

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

L S Chan (Non-Executive Director) joined the Board in 2016. He has been an Executive Director of CKI since January 2011 and Chief Financial Officer of CKI since January 2006.
Mr Chan is also an Executive Director of Power Assets Holdings Limited, HK Electric Investments Manager Limited as the trustee-manager of HK Electric Investments, and HK Electric Investments Limited.
Mr Chan joined the CK Group in January 1992.
Mr Chan is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants and also a member of the Institute of Certified Management Accountants (Australia).
He is a member of the AC.
Key strengths: Finance, infrastructure and corporate overview.

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

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

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

H Mottram (CEO) joined the Board in 2010, when she was appointed as CEO of NWL and NWGL. Ms Mottram is a Non-Executive Director of Centrica plc and Vice-Chair of the North East Local Enterprise Partnership. Ms Mottram was named North East Business Executive of the Year in 2017 recognising her significant contribution to business in the north east of England. She was awarded an OBE in 2010 for services to the rail industry and a CBE in 2018 for services to the water industry and business community.
Key strengths: Leadership, corporate overview, infrastructure and customer service.

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

R G Sexton (Independent Non-Executive Director) joined the Board in April 2021. Mr Sexton is a Fellow of the Institute of Chartered Accountants and was a partner in PricewaterhouseCoopers LLP (PwC) from 1992 until 2018, where he was lead partner on a diverse range of FTSE 100 and Fortune 500 clients. He also held a number of senior management roles in PwC including Vice Chairman, Global Assurance from 2013 to 2018. Mr Sexton was Co-Chair of the Value Reporting Foundation until August 2022, when it was consolidated into the IFRS Foundation, where he is now a board observer. In February 2022, Mr Sexton joined the Board of Our Future Health and sits on the Nomination and Remuneration Committees and is Chair of the Audit and Risk Committee. He is Chair of the AC and R&CSC and has a special focus on the Company's activities in Essex and Suffolk.

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

Members of the Board and attendance at Board meetings

There were five scheduled meetings during the year ended 31 March 2023. The Board considered this sufficient to enable it to discharge its duties effectively, and will meet out of the agreed cycle for time-critical matters or significant matters that arise as necessary.

Membership of the Board and attendance at the five scheduled meetings during the year were as follows

Name	Attendance
A J Hunter	5
A A Bryce	4
L S Chan	5
H L Kam	4
D N Macrae	5
J M McGlade	5
H Mottram	5
B C Rosewell	5
R G Sexton	4
P D Vicary-Smith	5

Corporate Governance Statement

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

The arrangements and functioning of the Board, its Committees, Sub-committees and Sub-groups adhere to the Wates Principles and the 2019 Ofwat Objectives, with the latter being subject to the minor exceptions explained below. As set out above, at 31 March 2023, and at the date of this Report, there were five INEDs, a further four NEDs, including the Chairman, and one Executive Director (being the CEO). Accordingly, the INEDs constitute the largest single group on the Board.

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

As the Chairman says in his introduction (on **pages 64** to **65**), the INEDs, within agreed parameters, effectively lead the work of the Committees, which hold very full meetings with considerable workloads, to prepare the ground for the Board.

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

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

Board Leadership, Transparency and Governance

The 2019 Ofwat objectives (and supporting provisions)

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

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

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

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

Our Purpose statement (set out on **page 9**) has been informed by a very extensive research and consultation exercise (supported by Business In The Community) and a number of workshops. The enhanced statement captures how we care for the essential needs of our communities and the environment, now and in the future, and the positive difference we make by investing over the long term to create a sustainable and resilient business.

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

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

An annual **Our Purpose** report is published so that customers and stakeholders have visibility of the activities and outcomes that we are undertaking in order to achieve our Purpose.

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

The Board has reviewed and discussed the Company's strategy, values and culture and is satisfied that these are consistent with the enhanced purpose. The Board recognises that the Company's strategy needs to reflect the purpose, as well as customers' long-term priorities and to take account of Ofwat's emphasis on public value. Our Purpose statement is designed to convey why the business exists and guide strategy and behaviours; consider the role business can play to improve society and apply this to services and customer experience.

Our Purpose statement is therefore underpinned by key principles which demonstrate that NWL:

- Cares 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;
- Making a positive difference by operating efficiently; and
- Investing prudently, to maintain a sustainable and resilient business.

First and foremost, our core role is as a provider of water and wastewater services, which places us at the heart of our communities and our natural environment. Caring for them is always our priority.

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

The Board has received and discussed detailed feedback on an extensive employee engagement survey conducted through the Great Place to Work UK programme, which provided a comprehensive insight into the alignment of behaviour throughout the business with the company purpose and values. The survey findings were very positive, resulting in NWL achieving a ranking as a top 'UK Super Large Employer' on an elite list of companies leading the way in creating a positive and healthy workplace environment and culture.

Although the entire Board will engage closely with the workforce, it has designated the Senior INED, Alan Bryce, to have a special focus on our people and the culture of the business. Mr Bryce meets monthly with the Group HR Director to discuss people issues, including where there is any requirement to take corrective action in the event of any identified misalignment with the Company's purpose.

The Human Resources team keeps Company policies and procedures under review to ensure that these properly reflect the Company Purpose and to embed it where this is appropriate.

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

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

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

The Board makes key strategic decisions, approves the annual budget and notes the medium-term business plans. It also approves key regulatory submissions and very significant investments or expenditure which is not in the normal course of business. Investments which form part of projects within approved business plans are authorised by the Committees below Board level. Although this formal framework is very effective, the ELT takes great care to ensure that matters which relate to the quality of the Company's services to customers, leakage, water quality and environmental performance are discussed fully by the Board.

The Standing or Executive Committees of the board can take decisions not delegated to specific committees between Board meetings. All Directors receive notice of Standing Committee meetings and may participate if they wish. Decisions taken by the Standing or Executive Committees are reported at the next Board meeting. The Company's Board meets at least five times each year.

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

(a) The Annual Report and Financial Statements;
(b) The annual business plan;
(c) Data security;
(d) Decisions on tariffs;
(e) Approval of several significant capital projects;
(f) Review of performance commitment targets and related investment priorities;
(g) Cyber security;
(h) Environmental impact;
(i) Customer satisfaction;
(j) Regulatory and governmental policy developments;
(k) Energy strategy;
(l) Treasury strategy; and
(j) PR24 preparation.

A Board statement as detailed above is included in NWL's **APR** for the year ended 31 March 2023.

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

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

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

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

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

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

Although certain limited matters (such as extensions of directors' appointments, large contract awards and significant borrowing arrangements) are referred to the NWGL Board, this is regarded as a formality. The NWGL Board accepts that the NWL Board is required to have full responsibility for all aspects of the regulated company's business and, to that end, has never rejected a recommendation of the NWL Board.

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

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

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

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

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

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

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

(i) *An explanation of group structure.*

This is provided at **page 51**.

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

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

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

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

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

An explanation of principal risks, and our approach to mitigating these risks, is provided on **pages 57** to **62**.

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

Details of Board and Committee membership and meetings and attendance is set out at **pages 70**, **83**, **85** and **88**. No votes were held at any relevant meeting and all decisions were reached by consensus.

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

A detailed explanation of the Company's executive pay policy is provided in the Remuneration Committee Report on **pages 89** to **91**, including how the criteria for the short-term incentive plan have significant linkage to benefits for our customers and the wider environment.

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

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

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

The Board has determined that A Bryce, J McGlade, B C Rosewell, R G Sexton and P Vicary-Smith are independent. Their backgrounds and skills are described in their biographies on **pages 67** to **69**.

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

The Board therefore believes that the Board, its Committees, Sub-committees and Sub-groups have sufficient independent membership to meet this Objective.

The non-independent NEDs bring extensive knowledge and experience of global infrastructure, finance, customer engagement, environmental policy and corporate governance.

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

INEDs are the largest single group on the Board.

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

The Chairman was not independent of investors on appointment when the Company had a single ultimate controlling shareholder. In her Board effectiveness review conducted in 2021, Professor Michelon invited detailed comments on the Chairman's performance. She reports that he is described as "*inclusive, engaging and supportive of all directors, welcoming, good at analysing key issues and bringing a clear perspective and flexible in gaining consensus.*"
Professor Michelon adds that: "…*there seems to be a great deal of respect for the Chairman, both because of his ability to run meetings efficiently, but also his friendly and open style that encourages all directors to feel comfortable in putting forward their views. All surveyed members confirmed that the Chairman promotes open debate and facilitates constructive discussion, ensuring that all directors have appropriate information and sufficient time for meaningful discussion.*"

Given the balance of the Board and the strong group of INEDs, Professor Michelon confirmed that she did not consider the fact that the Chairman is not independent to be an issue for concern.

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

Following the appointment of an entirely new suite of INEDs and Company Secretary in 2021, the Company undertook its first annual evaluation of the performance of the Board since those appointments in March 2023 which was in line with the Company's determination that in order to provide meaningful insight from the evaluation, a cycle of Board meetings needed to occur with the new suite of directors in place and able to provide constructive feedback. The reintroduction of face-to-face Board meetings following the relaxation of Covid-19 restrictions benefitted this process.

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

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

The newly appointed INEDs participated in a comprehensive on-boarding and induction programme, covering all key aspects of the Company's operations, responsibilities and financial structure. This involved a significant number of virtual meetings and 'teach-ins' with senior colleagues and visits to key sites. These site visits continue as a method of providing enhanced understanding of the workings of the Company to the Board. The programme is flexible and the appointees have been encouraged to help shape it. They have all confirmed that the programme is effective and assisted them in their roles.

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

The Company has adhered to this.

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

There is a majority of INEDs on the AC, Nomination Committee and Remuneration Committee. The latter two Committees are chaired by the Company's Chairman, which the Board considers appropriate in the context of the Company's ownership structure.

The INEDs play a leading part in the Board Committees and Sub-committees. Importantly, the AC is chaired by an INED with appropriate financial experience and five of the six members are INEDs. The R&CSC is, similarly, chaired by an INED and all five members are INEDs. More specifically, the AC and R&CSC deliver much of the preparatory work on the Annual Report and Financial Statements and **APR**, review the work of the internal audit function, review risk management and advise the Board on risk appetite and monitoring compliance with covenants and management of debt. At the AC, there is a particular focus on matters which directly impact customers, such as Guaranteed Standards of Service compliance. The AC and R&CSC report fully and frame proposals on such matters for the Board to consider. Therefore, in addition to their direct input to the Board, the influence of the INEDs and their contribution to the running of the Company, through the AC and R&CSC, is very significant and highly valued.

Authorisation of Directors' Conflicts of Interest

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

Work of the Committees

Details of the work of the AC, R&CSC and Nomination Committee are set out below.

Audit Committee Report

Introduction by the Chairman of the Committee, R G Sexton

The role of the AC is to assist the members of the Boards of NWL and its subsidiaries (the NWL Group) to discharge their individual and collective responsibilities in relation to:

- Ensuring the financial and accounting systems of each NWL Group company are providing accurate and up-to-date information on its current position;
- Ensuring the published Financial Statements of the NWL Group companies represent a true and fair reflection of this position;
- Ensuring the integrity of the Company's regulatory reporting systems and the accuracy of its regulatory reports; and
- Assessing the integrity of internal financial controls, thereby mitigating against financial loss or mis-statement.

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

Members of the Audit Committee

The members of the AC during the year were R G Sexton (Chairman), A A Bryce, B C Rosewell, J M McGlade, P D Vicary-Smith and L S Chan.

The CEO, Chief Financial Officer, Regulation and Assurance Director, Internal Audit Manager and the external auditor normally attend the Committee's meetings by invitation and R Somerville acted as Secretary to the Committee. Other senior managers, independent technical auditors and advisers are invited to attend as appropriate.

The work of the Audit Committee

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

External Audit

- Reviewing the draft Financial Statements and APR, considering reports from the external auditor setting out the audit approach and plan, significant audit risks and conclusions on the NWL Group's internal controls and risk management;
- Considering the key areas of judgement in the Financial Statements, reviewing reports from management, and ensuring these are consistent with those set out in **note 1(q)** to the Financial Statements on **page 123**;
- Reviewing the appropriateness of accounting policies and evidence supporting the going concern basis for the Financial Statements and recommending approval of the Financial Statements to the Board;
- Reviewing and monitoring the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- Approving the external auditor's fees for both audit and non-audit services, by reference to the agreed policy (see further details below).

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

- Confirmation that the auditor is, in its professional judgement, independent of the NWL Group;
- Obtaining from it an account of all relationships which may affect the firm's independence and the objectivity;
- Rotation of the lead audit partner every five years; maintaining a policy regarding the engagement of the auditor to conduct non-audit work and monitoring the level of audit fees compared to non-audit fees (see further details below);
- Considering audit tender requirements, being tenders every ten years and mandatory rotation after 20 years;
- Considering new accounting standards and reviewing their applicability to the Company;
- Reviewing the approaches taken to bad debt and taxation provisioning as well as unbilled revenue recognition; and
- Reviewing reporting from management or the external auditor on the accounting judgements associated with property, plant and equipment, and assumptions taken regarding valuing financial instruments and the defined benefit pension scheme liability.

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

Non-audit fees

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

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

Services which are not prohibited, but which have not been pre-approved and in respect of which the fee is equal to or less than £50k, can be approved by the AC Chairman, who reports such approval to the AC. If the fee for such services will exceed £50k the approval of the AC is required. The policy imposes a cap on non-audit fees equal to 70% of average audit fees for the previous three years.

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

Non-audit related work undertaken by Deloitte LLP in 2022/23 amounted to fees of £193k, comprising provision of assurance services related to the establishment of an EMTN programme, a bond issue under the EMTN and other third party contracts. The fees paid are set out in **note 3** to the Financial Statements on **page 125**.

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

Internal Audit

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

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

Internal audit reports reviewed by the Committee during 2022/23 included:

- **March 2022**
  Customer complaints and
  Account Queries
  Three Rivers Insurance
- **June 2022**
  Developer Services
  Sewer Flooding
  Interruption to Supply
  Procurement
  Transfer Pricing
- **September 2022**
  GSS - Appointments
- **February 2023**
  Asset Management
  Customer Billing
  Event Duration Monitoring Data Review

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

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

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

Work with other assurance providers
Support with data assurance work for the principal regulatory reporting was provided by Deloitte LLP for financial tables and PwC and our Internal Audit team for non-financial tables.

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

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

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

Further compliance and other matters

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

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

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

Name	Attendance
R G Sexton	5
A A Bryce	5
L S Chan	5*
J M McGlade	4
B C Rosewell	3
P D Vicary-Smith	2

* N Herrington attended 1 meeting and A Ng attended 3 meetings, both as alternates for L S Chan.

R G Sexton
Chairman of the Audit Committee

Risk & Compliance Sub-Committee Report

Introduction by the Chairman of the Sub-committee, R G Sexton

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

Members of the Risk & Compliance Sub-committee

The members of the R&CSC during the year ended 31 March 2023 were R G Sexton, A A Bryce, B C Rosewell, J M McGlade and P D Vicary-Smith.

The work of the Risk & Compliance Sub-committee

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

The R&CSC, on behalf of the Board, has performed a robust assessment of the principal risks facing the Company, including those that would threaten its business model, resilience, future performance, solvency or liquidity. These principal risks, and how they are managed, are described on **pages 57** to **62** in the Strategic Report.

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

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

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

- Reviewing reports at each meeting on the top-rated managed risks and priorities for assurance (being those risks with the biggest reduction between the business (gross) and managed (net) risk scores), representing key control areas for the Company;
- Reviewing high impact, low likelihood risks which have a rare to unlikely likelihood of occurrence but a potentially catastrophic level of impact;
- Advising the Board on risk appetite and exposure and reviewing risk assessment processes as well as keeping the effectiveness of the risk and internal control management systems under review;
- Monitoring compliance with covenants and treasury risks;
- Reviewing management of customer debt; and
- Reviewing the risk and control framework and reporting.

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

Name	Attendance
R G Sexton	3
A A Bryce	3
J M McGlade	2
B C Rosewell	3
P D Vicary-Smith	2

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

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

R G Sexton
Chairman of the Risk & Compliance Sub-committee

Nomination Committee

The Nomination Committee has wide-ranging terms of reference which are available on the Company's website. The Members during the year were A J Hunter (Chairman), D N Macrae, A A Bryce, B C Rosewell and P D Vicary-Smith.

Compliance with the Wates Principles

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

Principle One – Purpose and Leadership

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

Please see the comments on compliance with Objective 1 of the 2019 Ofwat Objectives, on **pages 72** to **74**.

Principle Two – Board Composition

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

Please see the comments on compliance with Objective 4 of the 2019 Ofwat Objectives, on **pages 77** to **79**.

Principle Three – Director Responsibilities

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

The Company has in place clear corporate governance practices which provide clear lines of accountability and responsibility. The members of the ELT have clearly defined responsibilities and levels of authority are set out in Financial Approval Rules (as explained in the comments in relation to Objective 2 of the 2019 Ofwat Objectives on **page 75**). The Board's approach to conflicts of interest and the relationship between the Company and its owners is also explained in that section of the Report.

The Chairman and Company Secretary discuss governance processes from time to time to confirm they remain fit for purpose and consider initiatives which could strengthen governance.

Details of the Board Committees are set out in the comments on Ofwat's 2019 Objective 4, on **pages 77** to **79**.

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

Principle Four – Opportunity and Risk

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

The Company is a long term business and ensuring its long term sustainable success is a key driver underpinning the work of the Board and Committees, as described in detail in this Report. The Board's approach to oversight of the identification and mitigation of risks is detailed in the Risk Report on **pages 55** to **62**.

Principle Five – Remuneration

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

A detailed explanation of the Company's executive pay policy is provided in the Remuneration Committee Report on **pages 89** to **91**.

Principle Six – Stakeholder Relationships and Engagement

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

Details of the Company's extensive stakeholder engagement programme are set out on **pages14** to **17**.

Code of Conduct

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

Remuneration Committee Report

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

Annual Statement

The Remuneration Committee is committed to complying with the Company's Licence obligation to meet Ofwat's Board leadership, transparency and governance principles on performance related executive pay and ensuring alignment to market practice.

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

Members of the Remuneration Committee

The members of the Remuneration Committee during the year were A J Hunter (Chairman), A A Bryce, D N Macrae, B C Rosewell and P D Vicary-Smith. H Mottram attends Committee meetings but does not participate in discussions relating to her own remuneration. There is a majority of INEDs in accordance with the Ofwat Principles.

The work of the Remuneration Committee

The Remuneration Committee met three times during the year, in April and June 2022 and January 2023, and twice after the balance sheet date, in May 2023, to finalise incentive plan awards. Attendance at the meetings was as follows:

Name	2022/23	May 2023
A J Hunter	3	2
A A Bryce	3	2
D N Macrae	3	2
B C Rosewell	3	2
P D Vicary-Smith	3	2

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

- Finalised awards for the 2021 Short-term Incentive Plan (STIP) and Long-term Incentive Plan (LTIP);
- Considered how changes to pension scheme arrangements, specifically the closure of the defined benefit pension scheme and changes to the defined contribution scheme, should be reflected in the Executive pay policy;
- Reviewed and approved the updated Executive pay policy;
- Reviewed Executive pay and Non-Executive Directors' fees, taking account of market benchmarking data, and agreed annual pay awards to take effect from 1 January 2023;
- Considered an assurance report from the Internal Audit Manager on performance against targets reflected in the 2022 STIP and LTIP;
- Agreed STIP payments for the 2022 calendar year, including reviewing performance against the balanced scorecard measures;
- Agreed the level at which the LTIP award in respect of the 2022 calendar year would vest.
- Considered and approved bonus payments in respect of the indirect acquisition of a 25% shareholding in NWGL by KKR & Co. Inc., which were paid in full by NWGL;
- Set performance targets for the STIP for the ELT and senior managers for the 2023 calendar year, reflecting all of the corporate themes in our balanced scorecard to deliver benefits for all stakeholders and ensuring that targets were set at stretching levels aligned to industry-leading performance;
- Set performance targets for the LTIP scheme for the award in respect of the 2023 calendar year, reflecting a sub-set of the balanced scorecard measures which deliver benefits for our stakeholders; and
- Commissioned an independent review of NWL executive incentive measures and considered a report on the review.

A J Hunter
Chairman of the Remuneration Committee

Directors' Remuneration Policy

The Remuneration Committee seeks to reward performance in a way that is fair and equitable, achieving a balance between cost and attracting and retaining the talent needed to meet its strategic goals and targets. In order to ensure alignment to market practice, the Remuneration Committee regularly reviews pay in reference to relevant factors, including employment marketplace benchmarking and the implied median remuneration levels.
This benchmarking takes place regularly to ensure that, as the marketplace moves, the Remuneration Committee remains aware of any material deviations in market remuneration levels that could impact the Company's ability to attract and retain talent.

Executive Directors

The remuneration of Executive Directors comprises:
- Basic salary;
- Benefits in kind;
- A performance related STIP;
- Annual LTIP awards;
- Pension benefits.

The Executive Remuneration Policy is a total remuneration policy. The Remuneration Committee determines and regularly reviews the mix of these elements. The overall aim is to achieve a total package that is close to the median, with the goal of ensuring members continue to be appropriately incentivised to deliver on the Company's stretching targets and to ensure the Company is able to attract and retain talent. The Remuneration Committee is satisfied that this balance between fixed and performance related remuneration remains appropriate.

A significant proportion of remuneration is linked to Company performance through the short-term and long-term incentive plans, with 50% of the CEO's maximum remuneration being linked to performance, as illustrated on **page 92**.

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

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

Purpose	Operation	Performance assessment	Maximum payable
LTIP			
The LTIP is designed to act as a retention mechanism and to incentivise long-term decision-making.	The LTIP is a cash-based award, with deferred payment. Vesting of the LTIP is based on performance in the calendar year of the award and the following financial year. Payment is deferred until the completion of four years from the start of the performance period.	The LTIP is structured with 60% related to the achievement of balanced scorecard targets, delivering benefits for customers and the environment, and 40% related to financial targets. For the financial targets there will be no vesting if less than 97.5% of the target value is achieved, increasing on a sliding scale to 50% vesting if 100% of the target is achieved and 100% vesting if 105% of the target is achieved If the Company is facing regulatory enforcement action, the Remuneration Committee may decide to defer some or all of the LTIP award, taking into account the significance of the action and impact on customers or the environment, until any enforcement action is concluded.	The maximum LTIP payable, as a percentage of basic salary, is 50% for the CEO and 30% for other Executive Directors.
Pension			
Pension benefits are provided at a level to reflect market expectations.	Directors are entitled to join the Company's defined contribution scheme at the same contribution rates as other employees. Alternatively, Directors may either choose to take a salary supplement, equivalent to the maximum company contribution level, in lieu of an employer pension contribution, or choose a lower pension contribution level (in line with the Pension Plan Guidelines) and receive a part salary supplement.	There is no variable performance related element.	The maximum company contribution rate to the defined contribution scheme is 10%.

Illustration of remuneration policy

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

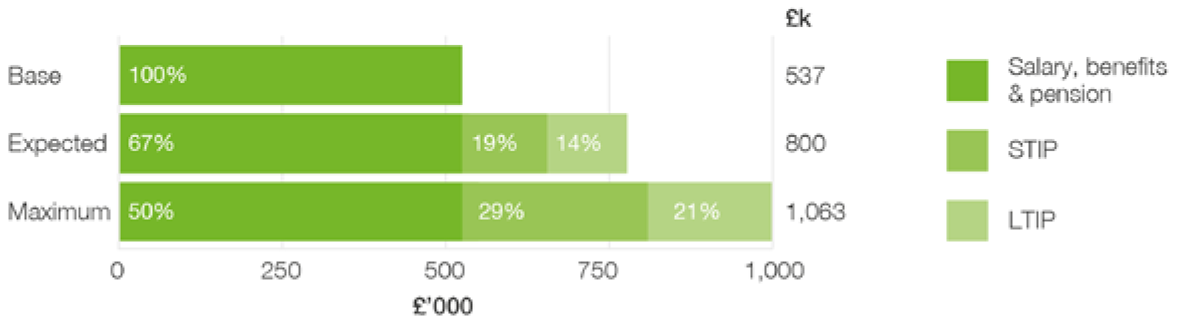
- The base level of remuneration, which is not dependent upon performance and comprises basic salary, benefits in kind and pension;
- The expected level of remuneration, reflecting a typical level of performance against targets for the STIP and LTIP; and
- The maximum level of remuneration, if all STIP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

For H Mottram, 50% of maximum remuneration is linked to Company performance through the STIP and LTIP.

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

Information on actual awards for the STIP and LTIP in respect of 2022 is provided on **pages 95** to **96**.

H Mottram



Non-executive Directors

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

Service contracts

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

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

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

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

Approach to remuneration on recruitment

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

Consideration of shareholder views

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

Consideration of employment conditions elsewhere in the Company

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

Directors' remuneration packages are benchmarked against market data on a regular basis. The salary benchmarking is reviewed annually for senior managers and every three years for the wider workforce.

Directors' remuneration in 2022/23 (audited)

The table below shows the total remuneration paid by the Company to Directors during the year with the exception of H Mottram where, as explained fully below, her remuneration includes certain amounts earned through services to the Company but paid by a parent undertaking. The table has been produced in accordance with the requirements of Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

	Salaries and fees		Benefits in kind		STIP		LTIP		Pension		Total remuneration	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
H Mottram*	421	384	8	8	215*	130	96*	84	41	42	781*	648
* STIP and LTIP earned in respect of NWL activities but cost fully borne by NWGL, therefore bonus costs not paid for by NWL customers – revised NWL cost £470k.												
A A Bryce	72	53	-	-	-	-	-	-	-	-	72	53
M Fay	-	9	-	-	-	-	-	-	-	-	-	9
Dr S Lyster	-	9	-	-	-	-	-	-	-	-	-	9
J McGlade	58	43	-	-	-	-	-	-	-	-	58	43
P Rew	-	56	-	-	-	-	-	-	-	-	-	56
B C Rosewell	58	53	-	-	-	-	-	-	-	-	58	53
R G Sexton	80	53	-	-	-	-	-	-	-	-	80	53
P Vicary-Smith	58	49	-	-	-	-	-	-	-	-	58	49
	747	709	8	8	215*	130	96*	84	41	42	1,107*	973

For H Mottram, the table shows 70% of her benefits as that is the proportion of her remuneration that is earned in respect of services to the Company. In 2022/23, NWL paid the amounts shown in respect of salary, benefits in kind and pension. No payment was made by NWL in respect of STIP or LTIP, therefore the Company's customers are not bearing the cost of any Directors bonuses for the year. In 2022/23, all awards for STIP and LTIP have been paid fully by NWGL. In 2021/22, all amounts reported in the table were paid by NWL.

For the other Directors reported in the table, NWL paid 100% of their remuneration.

H Mottram receives salary payments in lieu of employer pension contributions. These payments are reported under the pension heading in the table.

Basic salary

Basic salary is set by reference to market data and trends. When reviewing Executive pay during the year, the Remuneration Committee expressed concerns about whether the annual reviews for the CEO had kept pace with market trends and the potential for negative gender bias in the market data, and so they commissioned a comprehensive review of basic salary. This resulted in increase to the basic salary figure of 9.6% in 2023 compared to 2022, as reported in the table above. Given the detailed nature of the market review, it is anticipated that basic salary will likely follow the trends of basic salaries across the organisation in future years.

Benefits

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

STIP

The STIP for the 2022 calendar year was structured by the Committee in accordance with the policy outlined above, as follows:

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

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

Scorecard measure	Target	Performance	Achieved	% of total awarded	% of total STIP potential
Customer					
C-MeX experience	top 2	3rd	Y[1]	2.5	2.5
C-MeX customer service	top 2	3rd	Y[1]	2.5	2.5
D-MeX experience	top 2	6th	N	-	5
Unplanned interruptions >3 hours (mm:ss per property)[1]	<=4:53	8:17	N	-	5
Compliance risk index (number)	<=3	7.62	N	-	5
Repeat sewer flooding (number)	<=31	20	Y	2.5	2.5
Internal sewer flooding (number)	<=207	158	Y	2.5	2.5
Environment					
Leakage – NW (Mld)	<=121.3	119.2	Y	2.5	2.5
Leakage – ESW (Mld)	<=63.2	56.0	Y	2.5	2.5
Discharge permit compliance (EPA)	100%	99%	N	-	5
Pollution incidents category 1 & 2	0	0	Y	5	5
Greenhouse gas emissions ($ktCO^2e$)	<=22.42	23.44	Y	5	5
Competitiveness					
Group EBIT	budget	-	Y	20	20
Group distributions	budget	-	Y	20	20
People					
Employee engagement score (Trust Index) (%)	>=70	70	Y	5	5
Lost time accidents (number)	<15	14	Y	5	5
Communities					
Ethisphere	award	awarded	Y	5	5
Total				**80**	**100**

[1] The Remuneration Committee agreed that if an overall C-MeX position of 1st or 2nd is achieved then both measures would be deemed to be achieved.

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

The table below shows the STIP earned in respect of services to the Company for 2022/23. No payment was made by NWL in respect of the STIP, therefore the Company's customers are not bearing the cost of any Directors' bonuses for the year. The full amount of the award and additional discretionary awards made by the Chairman were paid by NWGL.

	STIP awarded (out of 100%)	Maximum STIP (% of basic salary)	STIP awarded (% of basic salary)
H Mottram	80%	70%	56%

LTIP

A cash LTIP was awarded by the Committee in 2022, structured in accordance with the policy outlined above, as follows:

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

The scheme relates to the period January 2022 to December 2025. Performance targets were assessed in the first year of the scheme with payment deferred until early 2026, after the end of the four-year scheme period.

Scorecard measure	Target	Performance	Achieved	% of total awarded	% of total STIP potential
Customer and Environment					
C-MeX customer service	top 2	1st	Y	10	10
Unplanned interruptions >3 hours (mm:ss per property)	<=4:53	8:17	N	-	10
Compliance risk index (number)	<=3	7.62	N	-	10
Internal sewer flooding (number)	<=207	158	Y	10	10
Leakage – NW (Mld)	<=121.3	119.2	Y	5	5
Leakage – ESW (Mld)	<=63.2	55.6	Y	5	5
Pollution incidents category 1 & 2	0	0	Y	10	10
Competitiveness					
Group profit after tax	budget	-	N	-	20
Group distributions	budget	-	Y	10	20
Total				**50**	**100**

The table below shows the LTIP earned in respect of services to the Company for 2022/23. No payment was made by NWL in respect of the LTIP, therefore the Company's customers are not bearing the cost of any Directors' bonuses for the year. The full amount of the award and additional discretionary awards made by the Chairman were paid by NWGL

	LTIP awarded (out of 100%)	Maximum LTIP (% of basic salary)	LTIP awarded (% of basic salary)
H Mottram	50%	50%	25%

Pension

Pension arrangements operated in accordance with the policy outlined on **page 91**.

Percentage change in CEO remuneration

The table below shows the change in remuneration for 2022/23 compared to 2021/22 for the CEO and for other employees. In order to make a meaningful comparison, other employees includes only those who have been employed for the full two-year period and excludes senior management whose remuneration is set by the Remuneration Committee. STIP has been compared to the annual bonus paid to the senior management cohort and only reflects the proportion earned in relation to NWL activities.

	Change in CEO remuneration (%)	Change in other employees' remuneration (%)
Salaries and fees	9.6%*	4.8%
Benefits in kind	7.7%	(39.3%)
STIP / annual bonus	65.6%	28.6%

* This reflects the comprehensive review of basic salary commissioned by the Remuneration Committee as explained on **page 94**.

CEO pay ratio

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

Year	Method	25th percentile ratio	Median pay ratio	75th percentile ratio
2023	Option A	24:1	19:1	16:1
2022	Option A	21:1	16:1	13:1
2021	Option A	21:1	16:1	13:1
2020	Option A	20:1	16:1	12:1
2019	Option A	22:1	17:1	14:1

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

Year	25th percentile employee £'000	Median pay employee £'000	75th percentile employee £'000
Salary component of pay and benefits	28	35	44
Total pay and benefits	32	42	49

CEO remuneration over time

Over the past ten years, the basic salary of the CEO has increased by the same as, or less than, the average pay award for the majority of employees each year, until the market review carried out this year. Over the same period, the maximum potential bonus available under the STIP and LTIP has remained a constant proportion of salary. An average award of 77% has been made for the STIP and 43% for the LTIP over the period.

Relative importance of spend on pay

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

Year	2023 £'m	2022 £'m	Change %
Employee costs (**note 5**)	152.7	150.5	1.5
Dividends (**note 8**)	110.8[1]	181.5[1]	(39.0)

[1]Excluding special dividend of £159m which was used to settle a legacy intercompany loan arrangement and was cash neutral to the Company.

Remuneration policy for 2023/24

At its meeting in January 2020, the Remuneration Committee made changes to the STIP and LTIP to increase the proportion of performance-related executive pay aligned to delivering benefits for our customers to 60%. No changes have been made to the structures of the STIP and LTIP for 2023.

STIP 2023

The balanced scorecard targets for 2023/24 are shown in the table below, in accordance with the revised policy. These are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver our 'national leader' vision.

Scorecard measure	Target	% of total STIP potential
Customer		
C-MeX experience [1]	top 2 company	2.5
C-MeX customer service[1]	top 2 company	2.5
D-MeX experience	top 2 WASC	5
Unplanned interruptions >3 hours (mm:ss per property)[2]	<=4:53	5
Compliance risk index (number)[2]	<=3	5
Repeat sewer flooding (number)[2]	<=27	2.5
Internal sewer flooding (number)[2]	<=162	2.5
Environment		
Leakage – NW (Mld)[2]	<=118.0	2.5
Leakage – ESW (Mld)[2]	<=59.0	2.5
Discharge permit compliance (EPA)[2]	100%	5
Pollution incidents category 1 & 2[2]	0	5
Greenhouse gas emissions (ktCO2e)[2]	<=22.18	5
Competitiveness		
Group EBIT	budget	20
Group distributions	budget	20
People		
Employee engagement (Trust Index) (%)	>=70	5
Lost time accidents (number)	<14	5
Communities		
Ethisphere award	awarded	5
Total		**100**

[1] If an overall position of 1st or 2nd is achieved then the Remuneration Committee has agreed that both measures would be deemed to be achieved.
[2] Where stretching targets are set which are designed to achieve industry leading performance, the Remuneration Committee has agreed that if the target score is not achieved but actual performance is at an industry leading level and has shown an improvement on prior year performance, the target will be deemed to have been achieved.

LTIP 2023

The LTIP targets for the 2023 scheme are shown in the table below, in accordance with the revised policy. These are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver our 'national leader' vision. This means that they are often more stretching than the regulatory PCs reported in the **APR**.

Scorecard measure	Target	% of total LTIP potential
Customer and Environment		
C-MeX customer service	top 2 company	10
Unplanned interruptions >3 hours (mm:ss per property)[1]	<=4:53	10
Compliance risk index (number)	<=3	10
Internal sewer flooding (number)	<=162	10
Leakage – NW (Mld)	<=118.0	5
Leakage – ESW (Mld)	<=59.0	5
Pollution incidents category 1 & 2	0	10
Competitiveness		
Group profit after tax	budget	20
Group distributions	budget	20
Total		**100**

Directors' Report

Directors

The Directors who served during the year, and to the date of signing, are listed on **pages 67** to **69** of the Governance Report.

Disclosures provided in the Strategic Report

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

Our approach to research and innovation is described in the Performance Review section of our Strategic Report under the Competitiveness heading and the costs of research and development are disclosed in **note 3** of the Financial Statements. Our policies in respect of the employment of disabled persons are set out in the Performance Review section of our Strategic Report under Diversity and Equal opportunities on **page 42**.

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

The Companies (Miscellaneous Reporting) Regulations 2018, effective for years beginning on or after 1 January 2019, set out revised requirements for reporting on engagement with employees, suppliers, customers and others in a business relationship with the Company. Our approach to stakeholder engagement is set out in the Our Stakeholders section of our Strategic Report on **pages 14** to **17**, and summarised on our Section 172 Statement on **pages 18** to **22**.

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

Statement of corporate governance arrangements

The Company's corporate governance arrangements are described on **pages 67** to **87** of the Governance Report. In accordance with the requirements of our Licence, we report our corporate governance arrangements against the 2019 Objectives set by Ofwat. We also report compliance with the Wates Principles, which are appropriate for large privately owned companies.

Political donations

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

Energy and Carbon reporting

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

For our regulatory PC, emissions are calculated using the industry-standard approach (the UK Water Industry Research Ltd Carbon Accounting Workbook) using 'market-based' reporting which allows for the purchase of green energy through the electricity and gas networks. Our emissions have been independently verified in accordance with ISO 14064-1 to ensure validity and transparency.

Under the calculation methodology described above, our baseline emissions in 2019/20 were 68.6ktCO2e. Our total net operational GHG emissions for the year ended 31 March 2023 were 23.4ktCO2e, a small increase on the prior year but still representing a reduction of 45.2ktCO2e compared to the baseline, which is a significantly greater reduction than our regulatory performance commitment of 6.8 ktCO2e.

The table below summarises our emissions for the reporting year, the previous year and the baseline year of 2019/20 showing both market-based and location-based performance measures as reported in the Carbon Accounting Workbook.

Annual operational GHG emissions		Location based			Market based		
$ktCO_2e$		2022/23	2021/22	2019/20	2022/23	2021/22	2019/20
Scope 1	Direct emissions from burning of fuels	38.3	41.9	28.9	8.7	8.6	28.9
	Process and fugitive emissions	29.2	28.0	28.8	29.2	28.0	28.8
	Transport in company owned/leased vehicles	7.5	8.0	8.3	7.5	8.0	8.3
Scope 2	Purchased electricity	64.9	71.1	86.9	-	-	-
Scope 3	Public transport and travel in private vehicles	0.4	0.3	0.9	0.4	0.3	0.9
	Outsourced activities	1.8	1.9	2.1	1.8	1.9	2.1
	Electricity transmission and distribution	5.9	6.3	7.4	-	-	-
Gross operational emissions		**148.0**	**157.5**	**163.3**	**47.6**	**46.8**	**69.0**
Exports	Renewable electricity generated and exported	(0.1)	(0.2)	(0.2)	(0.3)	(0.2)	(0.4)
	Biomethane generated and exported	(23.9)	(24.7)	(15.4)	(23.9)	(24.7)	-
Net operational emissions		**124.0**	**132.6**	**147.7**	**23.4**	**21.9**	**68.6**

In 2022/23 the Company used 571GWh of energy, compared to 530GWh in the baseline year of 2019/20, including:

- 335.4 GWh of grid-supplied electricity used for pumping, treatment and support functions (2019/20: 339.9 GWh);
- 199.5 GWh of natural gas used for treatment and support functions (2019/20: 147.7 GWh);
- 29.1 GWh of road fuels used (2019/20: 37.5 GWh).

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

Annual operational GHG emissions	Location based			Market based		
$ktCO_2e$	2022/23	2021/22	2019/20	2022/23	2021/22	2019/20
Emissions/Ml of water	110	121	144	3	3	2
Emissions/Ml of sewage treated (flow to full treatment)	287	270	253	116	102	155
Emissions/Ml of sewage treated (water distribution input)	507	528	517	205	200	316

Directors' indemnification

The Company has maintained Directors' and Officers' (D&O) insurance cover throughout the year to 31 March 2022, provided under group-wide D&O insurance placed by CKHH.

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

Directors' statement

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

Auditor

Following a competitive tender process, Deloitte LLP were re-appointed as the Company's auditor for the year ended 31 March 2023.

Financial statements preparation and going concern

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

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

- The financial strength of the Company at the balance sheet date and financial performance, which is in line with expectations and reviewed at each Board meeting, most recently in July 2023;
- The key financial ratios over the next 12 month planning horizon, as reflected in investment grade credit ratings;
- The fact that the Company has in place £450m of committed bank facilities as back up liquidity, maturing in December 2025, which was undrawn at 31 March 2023;
- The Treasury Strategy approved by the Board in April 2022 and the subsequent establishment of an EMTN programme which enables the Company to raise new financing in a timely manner as required; and
- The Company's formal governance and risk management arrangements which are monitored by the Audit Committee, R&CSC and Board.

Viability statement

The PR19 settlement remains extremely challenging and does not constitute a 'fair balance between risk and return' resulting in less financial headroom in the near term to 2025. 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 resulted 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. 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, such as the unprecedented increase in power prices experienced in the last 18 months, placing pressure on credit ratings as reflected in the downgrade by S&P to BBB (stable). In the round it does not provide a 'fair balance between risk and return'.

The Directors confirm that over the long-term the business remains financially resilient but have concerns about the rate of return at PR24. 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 two years, particularly higher operating and capital costs. The longer-term view beyond two 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. This is consistent with Ofwat's statutory duty to ensure that efficient companies are financeable.

This statement and the supporting analysis takes account of the latest internal forecast of the investment requirements for the 2025-30 period and beyond, consistent with our draft long-term strategy. This is still subject to review and challenge by Ofwat in its forthcoming price review and so is uncertain. For the purpose of stress testing we have therefore looked at a range of capital investment scenarios. These scenarios suggest a capital programme 2-3 times larger than historical levels from previous five-year periods driven principally by the need to deliver new infrastructure demanded by legal requirements. The scale of this investment programme creates a need for additional equity investment under most scenarios. Our stress test scenarios include this equity injection as a mitigant where we believe it would be required. This is also reflected in the Board's discussions around distributions.

The Directors have assessed the future prospects of the Company and consider that it should be able to manage its business risks, continue to operate and meet its liabilities as they fall due over the seven years to March 2030 given the long-term nature of the business. Whilst the Directors consider that the business will remain financeable with regards to its obligations to debt financing and credit ratings, they remain significantly concerned that the 'early-view' returns Ofwat has set out in its PR24 methodology are not sufficient to attract the necessary investment that is likely to be needed to meet the new capital needs and, in the round, offer reasonable returns on that investment.

Following from the above, our Board can confirm that we would be financeable over the long term to 2030 specifically in relation to debt. However, we do not think that Ofwat's 'early-view' weighted cost of capital is consistent with the risks faced by our equity investors.

This confirmation is given based on the latest information and evidence available to NWL.
In arriving at their conclusion, the Directors have taken into account:

- The Licence which is in place on a rolling 25 year basis;
- The controls and protections provided by the independent regulatory regime including the primary duty of Ofwat to ensure that efficient companies are able to finance their functions, including earning a reasonable return on the capital invested;
- 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, which was undrawn, maturing in December 2025 with the intention of extending until 2030 in due course, and a further of £150m loan facilities which were drawn after the balance sheet date;
- The Treasury Strategy approved by the Board in April 2022 and the subsequent establishment of an EMTN programme which enables the Company to raise new financing in a timely manner as required;
- The key financial ratios over the planning horizon of the Company's financial forecast to March 2028 and extended forecast to March 2030, as reflected in investment grade credit ratings;
- The development of the PR24 business plan, including plans to address the financeability challenge created by the potential scale of the AMP8 capital programme;
- The Board's dividend policy;
- The extent to which equity could be raised in NWL if required;
- The principal risks and uncertainties facing the Company and the mitigating controls, as described on **pages 55** to **62**, 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.

[1] See: https://www.nwg.co.uk/globalassets/corporate/about-us-pdfs/long-term-delivery-strategy-final.pdf

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 2023.

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 seven years to March 2030 to assess the viability of the Company.
This period has been chosen 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 linked to the Company's principal risks.
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 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, how they map to the principal risks, the severity of the adverse scenarios applied, the outcome in the context of the key financial ratios and potential mitigating actions where required.

Ref	Stress test	Principal Risk	Scenarios	Outcome	Mitigation
1	Lower inflation, reducing allowed revenue and RCV growth	Regulatory and political changes	Up to 1% per annum lower than base forecast, sustained over period	Increased gearing and lower interest cover creates risk of credit rating downgrade if low inflation sustained through AMP8	Application of the Board's dividend policy and possible equity raising
2	Increased borrowing costs for raising new and refinanced debt	Regulatory and political changes Funding and liquidity risk Financial performance	Up to 2% higher than base forecast	No material impact on ratios in AMP7 but sustained increase through AMP8 would impact interest cover and FFO creating a risk of credit rating downgrade	Increasing interest rates should be reflected in PR24 cost of debt Application of the Board's dividend policy and possible equity raising
3	Defined benefit pension scheme returns to deficit position and higher deficit repair contributions	Regulatory and political changes	Deficit up to £100m and increased deficit repair payments up to £10m pa	No material impact on ratios	Not required
4	Higher operating costs, including energy and chemical prices	Customer and stakeholder trust and confidence Water/wastewater service failure Supply chain failure Asset health deterioration Effect of climate change Regulatory and political changes Financial performance	Up to 10% increase in current planned spend	Significant cost increases would affect gearing, interest cover and FFO credit ratios over the seven year period creating a risk of credit rating downgrade	Strong management of costs and efficient delivery of outcomes through innovation. Application of the Board's dividend policy and possible equity raising
5	Higher capital costs, reflecting input cost pressures		Up to 10% increase in current plan		
6	Higher totex costs		Combination of scenarios 5 and 6		
7	Impact of incident crystallising one of the principal risks identified on **pages 55 to 62**	Water/wastewater service failure Cyber security Asset health deterioration	One off impact of up to £50m	One-off impact would not have a material impact on ratios	Not required
8	Regulatory penalty for poor performance or non-compliance with obligations	Health & safety Water/wastewater service failure Asset health deterioration	One off penalty of up to 10% of regulated revenue	One-off impact would not have a material direct impact on ratios Reputational impact could affect stakeholder views of the business over longer term	Financial mitigation not required but would need to demonstrate improved performance to retain stakeholder trust and confidence

Ref	Stress test	Principal Risk	Scenarios	Outcome	Mitigation
9	Sustained deterioration in household revenue collection due to cost of living pressures	Customer and stakeholder trust and confidence	Up to 2% pa	No material impact on ratios	Not required
10	Net ODI penalty	Water/wastewater service failure Supply chain failure Asset health deterioration Effect of climate change	Up to £15m pa	No material impact on ratios	Not required
11	Adverse outcome of PR24 compared to base plan assumptions	Regulatory and political changes	Lower revenue allowance than base plan assumption	No impact in AMP7 Insufficient returns in AMP8 impeding the ability to raise finance and creating a risk of rating downgrade	To be assessed through PR24 process, including option to refer to CMA.
12	Combined impact of adverse economic movements		Scenarios 1, and 2	No material impact on ratios in AMP7. Sustained impacts through AMP8 would affect gearing, interest cover and FFO ratios creating a risk of rating downgrade	Application of the Board's dividend policy and possible equity raising Increasing interest rates should be reflected in PR24 cost of debt
13	Combined impact of adverse company performance		Scenarios 6, 8 and 10	Increased costs in AMP7, including advancement of AMP8 investment, would affect gearing, interest cover and FFO ratios and create some risk of credit rating downgrade in AMP7 Higher costs and penalties would impact gearing, interest cover and FFO ratios over the period and result in credit rating downgrade in AMP8	AMP8 financing plans may need to brought forward to fund any advancement of capex. Strong management of cost and performance would reduce the impact. Application of the Board's dividend policy and possible equity investment.

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 scenarios, specifically higher operating and capital costs, a substantial increase in the cost of raising new finance into AMP8 or a sustained period of low inflation in AMP8, indicated a risk of a credit rating downgrade which would trigger the cash-lock up provisions in the Company's Licence, preventing payment of dividends. In the Board's opinion, even the most severe scenarios were not indicative of falling below investment grade credit 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:
- Additional controls on discretionary costs and capital expenditure phasing, taking care not to impact on service levels to customers;
- Flexible and efficient financing of new debt;
- The Board's dividend policy, which allows equity to be retained in NWL if required; and
- Discussions with shareholders in respect of any equity raising that may be required.

Fair, balanced and understandable

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Board has taken advice from the Audit Committee which has considered the process by which the Annual Report and Financial Statements has been produced as well as reviewing and commenting on the Report.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, the Directors are required to:
- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board and signed on its behalf:

R Somerville,
Company Secretary,
14 July 2023
Registered office
Northumbria House
Abbey Road
Pity Me
Durham
DH1 5FJ

Financial Statements

Income Statement
for the year ended 31 March 2023

	Note	2023 £'m	2022 £'m
Continuing operations			
Revenue	2	849.9	780.1
Operating costs	3	(638.3)	(591.8)
Operating profit		**211.6**	**188.3**
Net finance costs	6	(260.6)	(170.1)
(Loss) / profit before taxation		**(49.0)**	**18.2**
Taxation	7(a)	21.9	(162.0)
Loss for the year attributable to the shareholder of the Company		**(27.1)**	**(143.8)**

Statement of Comprehensive Income
for the year ended 31 March 2023

	Note	2023 £'m	2022 £'m
Loss for the year		(27.1)	(143.8)
Items that will not be reclassified subsequently to profit and loss:			
Actuarial (loss) / gain	24	(39.5)	127.9
Current tax related to actuarial loss / (gain)	7(b)	5.6	-
Deferred tax related to actuarial loss / (gain)	7(b)	2.5	(18.7)
Items that may be reclassified subsequently to profit and loss:			
(Loss) / gain on cash flow hedges taken to equity		(3.6)	23.2
Deferred tax on cash flow hedge loss / (gain)	7(b)	0.9	(5.2)
Other comprehensive (expense) / income		**(34.1)**	**127.2**
Total comprehensive expense for the year attributable to the shareholder of the Company		**(61.2)**	**(16.6)**

Balance Sheet

at 31 March 2023 (registered number 02366703)

	Note	2023 £'m	2022 £'m
Non-current assets			
Intangible assets	9	55.0	54.2
Property, plant and equipment	10	4,998.2	4,825.2
Financial investments	11	1.9	1.9
Pension asset	24	17.9	17.5
		5,073.0	**4,898.8**
Current assets			
Inventories	12	8.0	6.2
Trade and other receivables	13	246.3	235.9
Cash and cash equivalents	21	146.6	60.0
		400.9	**302.1**
Total assets		**5,473.9**	**5,200.9**
Current liabilities			
Trade and other payables	14	(220.2)	(194.0)
Borrowings	15	(208.5)	(665.8)
Provisions	17	(0.1)	(0.5)
		(428.8)	**(860.3)**
Non-current liabilities			
Borrowings	15	(3,420.6)	(2,566.7)
Provisions	17	(3.8)	(3.3)
Deferred tax liabilities	7(d)	(619.6)	(648.0)
Hedging instruments	19	(87.1)	(65.6)
Grants and deferred income	18	(567.5)	(538.5)
		(4,698.6)	**(3,822.1)**
Total liabilities		**(5,127.4)**	**(4,682.4)**
Net assets		**346.5**	**518.5**
Capital and reserves			
Share capital	20	122.7	122.7
Cash flow hedge reserve		7.0	9.7
Profit and loss account		216.8	386.1
Equity attributable to the shareholder of the Company		**346.5**	**518.5**

Approved by the Board of Directors on 14 July 2023 and signed on their behalf by: **H Mottram**

Statement of Changes in Equity

for the year ended 31 March 2023

	Note	Share capital £'m	Cash flow hedge reserve £'m	Retained earnings £'m	Total equity £'m
At 1 April 2021		**122.7**	**(8.3)**	**761.2**	**875.6**
Loss for the year		-	-	(143.8)	(143.8)
Other comprehensive income and expense		-	18.0	109.2	127.2
Total comprehensive income		-	18.0	(34.6)	(16.6)
Dividends	8	-	-	(340.5)	(340.5)
At 31 March 2022		**122.7**	**9.7**	**386.1**	**518.5**
Loss for the year		-	-	(27.1)	(27.1)
Other comprehensive income and expense		-	(2.7)	(31.4)	(34.1)
Total comprehensive expense for the year		**-**	**(2.7)**	**(58.5)**	**(61.2)**
Ordinary dividends	8	-	-	(110.8)	(110.8)
At 31 March 2023		**122.7**	**7.0**	**216.8**	**346.5**

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

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

Cash Flow Statement

for the year ended 31 March 2023

	Note	2023 £'m	2022 £'m
Operating activities			
Reconciliation of profit before interest to net cash flows from operating activities			
Profit before interest		211.6	188.3
Depreciation and impairment losses		151.0	147.5
Other non-cash charges and credits		(14.9)	(13.5)
Net credit for provisions, less payments		0.1	(2.2)
Difference between pension contributions paid and amounts recognised in the income statement		(39.1)	(19.6)
Capital grants received		15.4	15.6
Increase in inventories		(1.9)	(1.6)
Increase in trade and other receivables		(11.3)	(2.1)
Increase in trade and other payables		11.0	28.5
Cash generated from operations		**321.9**	**340.9**
Interest paid		(101.2)	(95.8)
Income taxes received / (paid)		3.1	(4.2)
Net cash flows from operating activities		223.8	**240.9**
Investing activities			
Interest received		1.5	0.4
Proceeds on disposal of property, plant and equipment		6.2	1.6
Loan repayment received from Group company		-	159.0
Purchase of property, plant and equipment and intangible assets		(282.8)	(252.2)
Net cash flows used in investing activities		**(275.1)**	**(91.2)**
Financing activities			
New borrowings		770.7	225.1
Net movement in overdraft		83.2	37.6
Dividends paid to equity shareholders		(110.8)	(340.5)
Repayment of borrowings		(601.1)	(36.2)
Payment of principal in respect of leases		(4.1)	(4.3)
Net cash flows generated from / (used in)		**137.9**	**(118.3)**
Increase / (decrease) in cash and cash equivalents		86.6	31.4
Cash and cash equivalents at start of year		60.0	28.6
Cash and cash equivalents at end of year		**146.6**	**60.0**
Total cash, cash equivalents and short term cash deposits	**21**	**146.6**	**60.0**

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Additional cash flow information is included in **note 21**.

Notes to the Financial Statements
for the year ended 31 March 2023

1. Accounting Policies
NWL is incorporated in the UK under the Companies Act 2006. The Company is a private company limited by shares and is registered in England and Wales. The address of the Company's registered office is shown on **page 112**. The nature of the Company's operations and its principal activities are set out in the Strategic Report on **page 11**.

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

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

(a) Basis of accounting
These Financial Statements have been prepared in accordance with FRS101, incorporating the Amendments to FRS101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 and the Companies Act 2006.

The Company adopted no new accounting standards in the period.

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

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

The Financial Statements have been prepared on a going concern basis, having considered the principal risks and uncertainties, which assumes that the Company will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 March 2023, the Company had net current liabilities of £27.9m (2022: £558.2m). The Directors have reviewed cash flow requirements and other factors, in particular the £450m committed bank facility which was undrawn at 31 March 2023, as described in the going concern statement on **page 104** of the Directors' Report. Accordingly, the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

(b) Revenue

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

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

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

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

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

(c) Intangible assets

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

Expenditure on internally developed intangible assets, excluding development costs, is taken to the income statement in the period in which it is incurred. Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Development expenditure is recognised as an intangible asset only after its technical feasibility and commercial viability can be demonstrated, the availability of adequate technical and financial resources and an intention to complete the project have been confirmed and the correlation between development costs and future revenues has been established.

In accordance with IFRIC guidance 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', costs of configuring and implementing 'software-as-a-service' systems, where the Company does not control the asset and the services are not provided by the SaaS provider, are expensed to the income statement in the year in which they are incurred.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(f) Grants and contributions

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

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

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

(g) Leases

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

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

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

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

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

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

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

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

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

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

(h) Inventories

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

(i) Pension costs

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

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

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

Actuarial gains and losses on experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur in the statement of comprehensive income.

The costs of the defined contribution section are charged to the income statement in the period they arise.

(j) Taxation

Current tax

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

Deferred tax

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted, or substantively enacted, at the balance sheet date.

Deferred tax is recognised in the income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

(k) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the date of transaction. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange gains or losses are recognised in the profit and loss account in the period incurred.

(l) Research and development

Research and development expenditure is charged to the income statement in the period in which it is incurred.

(m) Derivative financial instruments
The Company utilises interest and inflation rate swaps, gilt locks and forward exchange contracts as derivative financial instruments.

A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Company in line with the Group's risk management policies. Derivative financial instruments are stated at their fair value.

Hedge accounting is employed in respect of those derivative financial instruments fulfilling the requirements for hedge accounting as prescribed under IFRS 9. The Company has not applied hedge accounting criteria under IFRS 9 on a retrospective basis. Existing derivative financial instruments, if eligible for hedge accounting, continue to apply the hedging criteria under the provisions of IAS 39. Any new instruments will apply IFRS 9.

Derivative financial instruments are measured at fair value, which is considered to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction reflecting the credit risk of the counterparties in the principal (or most advantageous) market under market conditions as at the balance sheet date.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps and inflation swaps are determined by reference to market values for similar instruments.

Hedging transactions undertaken by the Company are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in currency cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement.

In relation to cash flow hedges to hedge firm currency commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in the cash flow hedge reserve and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-financial asset or a non-financial liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in the cash flow hedge reserve are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in the cash flow hedge reserve are transferred to the income statement in the same periods in which the hedged firm commitment affects the income statement.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in the cash flow hedge reserve is kept in the cash flow hedge reserve until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the cash flow hedge reserve is transferred to the income statement.

(n) Interest bearing loans and borrowings
All loans and borrowings are initially stated at the amount of the net proceeds, being fair value of the consideration received net of issue costs associated with the borrowing.

Fixed rate borrowings are stated at amortised cost. Finance and issue costs are recognised in the income statement over the duration of the borrowing using the effective interest rate method.

The carrying amount of index linked borrowings increases annually in line with the relevant RPI, with the accretion being charged to the income statement as finance costs payable. Other borrowing costs are recognised as an expense when incurred and fees are recognised evenly over the duration of the borrowing.

Realised gains and losses that occur from the early termination of loans and borrowings are taken to the income statement in that period.

Net debt is the sum of all loans and borrowings less cash and cash equivalents, short-term cash deposits, financial investments and loans receivable.

(o) Bad debt provisioning
The bad debt provision is calculated by applying a range of percentages to debt of different ages. These percentages also vary between different categories of debt. Higher percentages are applied to those categories of debt which are considered to be of greater risk and also to debt of greater age.

(p) Borrowing costs
Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial time to prepare for its intended use are capitalised while the asset is being constructed as part of the cost of that asset.

Capitalisation ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalisation is suspended. When construction occurs piecemeal, and use of each part ceases upon substantial completion of that part, a weighted average cost of borrowings is used.

(q) Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. Actual results may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The significant accounting judgement was:

- The asset lives assigned to property, plant and equipment, details of which can be found in **note 1(d)** above.

The significant accounting estimates were:

- The estimation of income for measured water and sewerage services supplied to household customers but not billed at the end of the financial period. Consumption is billed in arrears on a six-monthly cycle. Revenue is estimated and accrued using a defined methodology based upon historical usage and the relevant tariff per customer. A variation of 20% in the accrual would change revenue by £12.8m;
- Those assumptions used in arriving at the defined benefit pension scheme assets and liabilities under IAS 19. These key assumptions and their possible impact are disclosed in **note 24**; and
- The doubtful debt provision, reported in **note 13**, which is determined by estimating expected credit losses based on the Company's historical experience of irrecoverable debts. Debt is segmented according to the age of the debt, payment history and type of debt (for example current or previous occupier). Higher provisioning percentages are applied to categories of debt which are considered to be of greater risk, including those with a poor payment history as well as to those of greater age. Bad debt provisioning rates are reviewed annually to reflect the latest collection performance data from the Company's billing system. Potential impacts of forward-looking macro-economic factors on collectability are also considered. A reduction of 0.25% in the long-term collection rate would increase the provision by £15.0m.

(r) Transition to new accounting standards in the period

The Company adopted no new accounting standards in the period.

2. Revenue and Segmental Information

The Directors consider that the Company has a single class of business, the provision of water and wastewater services. All revenue is generated from within the United Kingdom.

Appointed business revenue is generated from the regulated activities of the Company, defined in its licence of appointment, necessary to fulfil its duties as a water and sewerage undertaker under the Water Industry Act of 1991.

Non-appointed revenue is generated from the non-regulated activities of the Company.

	2023			2022		
	Household £'m	Non household £'m	Total £'m	Household £'m	Non household £'m	Total £'m
Wholesale water	337.5	91.5	429.0	315.6	85.4	401.0
Wholesale wastewater	207.1	76.5	283.6	185.8	65.6	251.4
Retail	61.3	-	61.3	56.0	-	56.0
	605.9	**168.0**	**773.6**	**557.4**	**151.0**	**708.4**
Other appointed business			39.8			36.4
Total appointed business			**813.7**			**744.8**
Non appointed business			36.2			35.3
Total revenue			**849.9**			**780.1**

3. Operating Costs

Auditor’s remuneration in respect of the statutory audit of the Financial Statements was £260k (2022: £212k), including fees for a financing subsidiary, Northumbrian Water Finance plc (NWF), of £11k (2022: £9k).

Fees of £95k (2022: £70k) were incurred in respect of the **APR**, including the audit of the Regulatory Accounting Statements, and agreed upon procedures in respect of additional regulatory information, the statement of sufficiency of financial resources and facilities and financial resilience stress testing.

Fees of £193k (2022: £22k) were incurred for non-audit services comprising provision of assurance services relatedrelating to the establishment of an EMTN programme, a bond issue under the EMTN programme and third party contracts.

	Note	2023 £’m	2022 £’m
Materials and consumables		37.4	24.1
Employee costs	5	152.7	150.5
Own work capitalised		(53.3)	(46.7)
Pension past service credit	24	(13.0)	-
Costs of research and development		0.5	0.5
Bad debt charge		11.8	7.1
Inventories recognised as an expense		3.6	3.1
Other operating costs		349.4	306.5
Depreciation of property, plant and equipment		142.1	137.1
Amortisation of intangible assets		8.9	9.4
Impairment of tangible fixed assets	10	-	1.0
Profit on disposal of property, plant and equipment		(1.8)	(0.8)
Total operating costs		**638.3**	**591.8**

4. Directors' Emoluments

(a) Directors' remuneration

The remuneration of the Directors of the Company was as follows:

	2023 £'000	2022 £'000
Emoluments (including benefits in kind)	1,107	973

For those Directors holding office with both NWL and NWGL, or contributing significantly to the day to day operations of NWGL, costs are apportioned between the companies to reflect the level of activity carried out for each company. This note reflects only the proportion of costs earned in respect of NWL activities. This includes awards for the STIP and LTIP schemes, although these have been paid in full by NWGL, as explained in the Remuneration Committee Report on page 94.

None of the Directors serving during the year ended 31 March 2023 were members of a pension scheme where the Company makes contributions towards the cost. In the prior year, one Director was a member of a defined contribution pension scheme where the Company made contributions towards the cost, but left the Company during that year.

The Directors' remuneration policy and a detailed report showing total remuneration for each Director, for the year to 31 March 2023, are set out in the Remuneration Committee Report on pages 89 to 94.

(b) Highest paid Director

The amounts for remuneration shown in note 4(a) include the following in respect of the highest paid Director:

	2023 £'000	2022 £'000
Emoluments (including benefits in kind)	781	648

The table above reflects the proportion of remuneration earned in respect of NWL activities. This includes awards for the STIP and LTIP schemes, although in 2023 these have been paid in full by NWGL, as explained in the Remuneration Committee Report on page 94.

The highest paid Director left the defined contribution section of the NWPS at the beginning of the year ended 31 March 2017, therefore no payments were made to the Scheme in either the current or prior year.

5. Employee Information

The total employment costs of all employees (including Directors) were as follows:

	2023 £'m	2022 £'m
Gross costs charged to the profit and loss account:		
Wages and salaries	86.0	83.2
Social security costs	9.4	9.1
Other pensions costs	13.5	17.7
	108.9	**110.0**
Costs recharged to other Group companies		
Wages and salaries	2.2	2.1
	2.2	**2.1**
Net costs charged to the profit and loss account		
Wages and salaries	83.8	81.1
Social security costs	9.4	9.1
Other pensions costs	13.5	17.7
	106.7	**107.9**
Costs charged to capital schemes		
Wages and salaries	35.4	32.5
Social security costs	4.6	3.5
Other pensions costs	6.0	6.6
	46.0	**42.6**
Total employee costs	**152.7**	**150.5**

Total employee costs of £152.7m excludes the pension past service credit of £13.0m (**see note 3** and **note 24**).

The average monthly number of employees during the year was made up as follows:

	2023	2022
Water and waste water services	1,259	1,234
Customer services and meter reading	676	662
Other regulated activities	1,081	1,106
Non regulated activities	87	87
	3,103	**3,089**

6. Net Finance Costs

	2023 £'m	2022 £'m
Finance costs payable:		
Bank overdrafts and loans	13.8	8.4
Receivable in respect of derivatives	(8.2)	(4.2)
Payable to subsidiary Group company	96.9	86.2
Payable to other Group company	1.1	0.5
Amortisation of discount, fees, loan issue costs and other financing items	3.4	5.5
Accretion on index linked bonds	142.0	52.3
Interest cost on pension plan obligations	-	2.4
Obligations under leases	5.9	2.8
	254.9	**142.9**
Less amounts capitalised on qualifying assets	(10.0)	(8.8)
	244.9	**134.1**
Fair value losses on derivative financial instruments	17.9	36.3
Total finance income payable	**262.8**	**170.4**
Finance income receivable:		
Bank deposits	(1.4)	-
Receivable from Group companies	-	(0.3)
Interest cost on pension plan obligations	(0.8)	-
Total finance income receivable	**(2.2)**	**(0.3)**
Net finance costs payable	**260.6**	**170.1**

7. Taxation

(a) Tax on (loss) / profit

	2023 £'m	2022 £'m
Current tax:		
UK current income tax credit at 19% (2021: 19%)	-	(7.6)
Adjustments in respect of prior periods	(2.1)	(2.3)
Payable / (receivable) in respect of group relief for the year	4.8	(0.4)
Adjustments in respect of prior period group relief	0.4	0.6
Total current tax	**3.1**	**(9.7)**
Deferred tax:		
Origination and reversal of temporary differences in the year at 19% (2021: 25%)	(24.7)	10.6
Impact of increase in rate of UK corporation tax	-	158.1
Adjustments in respect of prior periods	(0.3)	3.0
Total deferred tax	**(25.0)**	**171.7**
Tax (credit) / charge in the income statement	**(21.9)**	**162.0**

The rate of UK corporation tax for the current year is 19%. However, deferred tax has been provided at 25% to reflect the change to the rate of tax enacted by the Finance Act 2021.

Tax losses arising in the current year have been provisionally surrendered as group relief to other group companies, for which payment is receivable at the full rate of current tax. The remaining losses have been carried forward to be set off against future taxable profits.

(b) Tax relating to items (credited) / charged outside the income statement

	2023 £'m	2022 £'m
Current tax		
Actuarial (losses) / gains on pension scheme	(5.6)	-
Total current tax credit	(5.6)	-
Deferred tax:		
Actuarial (losses) / gains on pension scheme	(2.5)	32.0
Impact of increase in rate of UK corporation tax	-	(13.3)
Financial instruments	(0.9)	5.8
Impact of increase in rate of UK corporation tax	-	(0.6)
Total deferred tax (credit) / charge	(3.4)	23.9
Tax (credit) / charge in the statement of comprehensive income	**(9.0)**	**23.9**

(c) Reconciliation of the tax (credit) / charge

	2023 £'m	2022 £'m
(Loss) / profit before tax	**(49.0)**	**18.2**
(Loss) / profit multiplied by standard rate of corporation tax of 19% (2021: 19%)	(9.3)	3.5
Effects of:		
Expenses not deductible for tax purposes	0.1	0.2
Non-taxable gains and amortisation of capital sums	(1.7)	(1.4)
Depreciation in respect of non-qualifying items	0.9	1.1
Capital allowances super deductions	(4.0)	(2.3)
Impact on deferred tax of increase in current tax rate	-	158.1
Deferred tax movement not at current tax rate	(5.9)	1.5
Adjustments in respect of prior periods	(2.0)	1.3
Transfer pricing adjustments	(0.7)	(0.7)
Balancing payment payable	0.7	0.7
Total tax (credit) / charge	**(21.9)**	**162.0**

The effective rate of tax for the year was 45% (2022: 888%) The decrease is mainly explained by the impact of the restatement of deferred tax from 19% to 25% in the prior year which is not repeated in the current year, depreciation in respect of non-qualifying items, adjustments in respect of prior periods, offset by non-taxable gains and amortisation of capital sums and capital allowances 'super-deductions' available in excess of the cost of the related assets.

(d) Deferred tax

	Accelerated tax depreciation £'m	Deferred income £'m	Retirement benefit obligations £'m	Fair value hedging instruments £'m	Business combinations £'m	Tax losses £'m	Other £'m	Total £'m
At 1 April 2021	**538.0**	**(62.1)**	**(24.4)**	**(9.9)**	**5.6**	**-**	**5.2**	**452.4**
Charge / (credit) in the income statement	194.4	(25.4)	9.9	(11.7)	1.5	(8.0)	11.0	171.7
Charge in other comprehensive income	-	-	18.7	5.2	-	-	-	23.9
At 31 March 2022	**732.4**	**(87.5)**	**4.2**	**(16.4)**	**7.1**	**(8.0)**	**16.2**	**648.0**
Charge / (credit) in the income statement	31.8	(9.3)	2.6	(4.5)	(0.2)	(47.5)	2.1	(25.0)
Credit in other comprehensive income	-	-	(2.5)	(0.9)	-	-	-	(3.4)
At 31 March 2023	**764.2**	**(96.8)**	**4.3**	**(21.8)**	**6.9**	**(55.5)**	**18.3**	**619.6**

(e) Factors that may affect future tax charges

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.

The temporary increase in the rate of capital allowances included in Finance Act 2021 applies to qualifying expenditure incurred in the two years ended 31 March 2023 under contracts entered into on or after 3 March 2021. Such expenditure attracts allowances of 130% (compared to the normal 18%) in the case of assets with an economic life of less than 25 years, and 50% (compared to the normal 6%) in the case of assets with an economic life of 25 years or more. The additional allowances were a contributory factor to the Company incurring tax losses in the current year.

In his 2023 Budget the Chancellor introduced 100% first year capital allowances for qualifying plant and machinery for a three year period from 1 April 2023. As a result, the Company expects to continue to generate a tax loss over the remainder of the 2020-25 regulatory review period.

8. Dividends

	2023 £'m	2022 £'m
Equity:		
Ordinary dividends paid:		
Final dividend paid for the year ended 31 March 2021 of 100.49p (year ended 31 March 2020: nil) per share on an aggregated basis	55.4	123.3
Interim dividend paid for the year ended 31 March 2022 of 47.49p (year ended 31 March 2021: nil) per share on an aggregated basis	55.4	58.2
Ordinary dividends paid in the year	**110.8**	**181.5**
Special dividend paid:		
Special dividend paid for the year ended 31 March 2023 of nil (year ended 31 March 2022: 129.64p) per share on an aggregated basis	-	159.0
Special dividends paid in the year	**-**	**159.0**
Dividends proposed:		
Final dividend proposed for the year ended 31 March 2023 of 20.63p (year ended 31 March 2022: 45.17p) per share on an aggregated basis	25.3	55.4
Total dividends proposed	**25.3**	**55.4**

The Board has approved a revised dividend policy which took effect for the year ended 31 March 2023.

Dividend Policy
NWL considers that its dividend policy should be transparent, recognising the Company's commitments to various stakeholders including customers, employees, specifically pension scheme obligations, and investors, and with due attention to maintaining appropriate levels of financial resilience within the company.

A key overarching principle behind NWL's approach to dividends is that it's owners should be able to receive a competitive and fair return on their investment which reflects the underlying risk profile of the business. This ensures that there will be access to the necessary capital required to make investments for customer needs now and in the future.

NWL is seeking to maintain a progressive dividend policy that takes into account long-run financial performance and ensures that an efficient balance sheet is maintained. In line with the businesses' vision of being an industry leader, the policy seeks a competitive return consistent with a high-performing water company and to maximise returns over the long-term.

To deliver this the dividend policy will be based on four components:

- A base dividend component largely derived from the price control determination;
- A performance component linked to business performance and a fair assessment of outcomes for customers and the environment;
- A financial resilience adjustment designed to appropriately calibrate the Company's overall gearing levels with the underlying risk profile of the business; and
- A smoothing adjustment to take into account smaller ad-hoc movements within any year that are expected to reverse out over the AMP.

These components are discussed in turn below.

Base dividend component

The approach to setting the base dividend is that it should broadly reflect the real cost of equity based on the capital structure as established in the latest regulatory determination, on the assumption that the regulatory cost of equity will always be set at a level that ensures the company remains financeable.

Performance component

The regulatory framework incentivises companies to meet or exceed regulatory targets and shares these gains or losses between shareholders and customers. The base dividend will be adjusted up or down to reflect business performance in three areas:

- Totex performance: cost savings after the application of the regulatory approach to cost-sharing.
- ODI performance: net ODI rewards from improved outcomes for customers.
- Financing performance: where the company is able to secure debt financing at lower rates than assumed by the latest regulatory determination.

Financial resilience adjustment

Financial resilience adjustments are designed to ensure the company maintains a prudent investment grade credit rating and an appropriate buffer to absorb relevant financial risks. To achieve this an adjustment will be made to ensure that any real terms growth in the regulatory capital value is funded from both debt and equity in line with an efficient capital structure.

Smoothing adjustment

To provide stability in dividends a further adjustment may be made to ensure that over a regulatory cycle there is a more even allocation of dividends. This is because expenditure within an AMP is not evenly spread and aligned with the phasing of the price control determination, and unexpected events (positive and negative) can impact financial performance in the short term.

In making these adjustments, the Board will aim to match dividends over a cumulative period of up to five years to the level required to deliver the policies set out under the first three components of the policy.

Application of Dividend Policy

2022/23 Dividends

For the year ended 31 March 2023 the Board approved payment of an interim dividend of £55.4m and, after the balance sheet date, a final dividend of £25.3m. This equates to a regulatory dividend yield of 5% in respect of 2022/23. In reaching these decisions the Board took full account of performance for customers and the environment, its broader obligations and longer term financial resilience, in accordance with its dividend policy. A full explanation of the Board's considerations is published in the Company's **APR**.

Prior Year Dividends

Dividends paid in respect of the years ended 31 March 2021 and 31 March 2022 were paid in accordance with the Company's previous dividend policy. The final dividend of £123.3m paid for the year ended 31 March 2021 took account of cumulative financial performance over the two years since the previous dividend payment and the impact of the CMA redetermination on the five year plan, as well as the other factors in the dividend policy. The interim dividend of £58.2m and final dividend of £55.4m paid for the year ended 31 March 2022, took full account of the Board's dividend policy at the time. The special dividend of £159.0m was paid from the non-appointed business for the purpose of settling a legacy intercompany loan arrangement. The outcome of the special dividend and loan settlement transactions was cash neutral to the Company.

A full explanation of the Board's considerations in relation to each of these dividend payments is published in the Company's **APR** for the year in which the dividend was paid.

9. Intangible Assets

	Note	Software £'m	Assets in development £'m	Total £'m
Cost:				
At 1 April 2022		128.6	5.3	133.9
Additions		-	9.7	9.7
Transfers		8.7	(8.7)	-
At 31 March 2023		**137.3**	**6.3**	**143.6**
Amortisation:				
At 1 April 2022		79.7	-	79.7
Charge for the year		8.9	-	8.9
At 31 March 2023		**88.6**	**-**	**88.6**
Carrying value:				
At 31 March 2023		48.7	6.3	55.0
At 31 March 2022		48.9	5.3	54.2

Cumulative borrowing costs capitalised in the cost of intangible assets amount to £4.1m (2022: £3.8m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.04% (2022: 4.18%).

10. Property, Plant and Equipment

	Freehold land and buildings £'m	Infrastructure assets £'m	Operational, structures, plant and machinery £'m	Fixtures, fittings, tools and equipment £'m	Assets in the course of construction £'m	Total £'m
Cost:						
At 1 April 2022	168.2	3,181.3	3,432.2	253.8	256.2	7,291.7
Additions / adjustments	-	25.8	1.0	-	292.8	319.5
Schemes commissioned	3.6	93.4	159.0	3.3	(259.3)	-
Reclassifications	1.4	(0.9)	(1.3)	0.8	-	-
Disposals	(8.4)	(1.7)	(2.5)	(0.6)	-	(13.2)
At 31 March 2023	**164.8**	**3,297.9**	**3,588.4**	**257.3**	**289.6**	**7,598.0**
Depreciation:						
At 1 April 2022	75.4	486.9	1,692.7	211.5	-	2,466.5
Charge for the year	3.8	30.7	100.2	7.4	-	142.1
Reclassifications	-	-	(0.1)	0.1	-	-
Disposals	(4.1)	(1.7)	(2.4)	(0.7)	-	(8.8)
At 31 March 2023	**75.2**	**515.9**	**1,790.4**	**218.3**	**-**	**2,599.8**
Carrying value:						
At 31 March 2023	89.6	2,782.0	1,798.0	39.0	289.6	4,998.2
At 31 March 2022	92.8	2,694.4	1,739.5	42.3	256.2	4,825.2
Right of use assets included above:						
Additions in the year	-	-	4.4	-	-	4.4
Depreciation charge for the year	0.1	0.5	3.4	-	-	4.0
Carrying value at 31 March 2023	2.1	41.8	12.3	-	-	56.2
Carrying value at 31 March 2022	2.2	42.3	11.3	-	-	55.8

Operational structures, plant and machinery include an element of land dedicated to those assets. It is not possible to separately identify the value of all land assets.

Cumulative borrowing costs capitalised in the cost of property, plant and equipment amount to £83.6m (2022: £73.9m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.04% (2022: 4.18%).

11. Financial Investments

	2023 £'m	2022 £'m
Loans to Group Companies	1.9	1.9

(a) Loans to Group Companies

In May 2004, the Company made a loan of £1.5m to Bakethin Holdings Limited, maturing in January 2034. The interest on the loan is capitalised and at 31 March 2023 the balance was £1.9m (2022: £1.9m).

(b) Subsidiaries

The Company's interests in subsidiaries at 31 March 2023 were as follows:

Name of undertaking	Country of incorporation or registration and operation	Description of shares held	Proportion of nominal value of issued shares held by Company (%)	Business activity
Northumbrian Water Finance plc	England and Wales	Ordinary shares of £1	100	Holding of finance instruments
Reiver Finance Limited	England and Wales	Ordinary shares of £1	100	Special purpose financing vehicle
Reiver Holdings Limited	England and Wales	Ordinary shares of £1	100	Holding company

The registered office of all subsidiaries listed above is Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ. Holdings are direct other than Reiver Finance Limited which is indirect.

The Company also has two quasi-subsidiary special purpose entities, Bakethin Holdings Limited, which is wholly owned by Bakethin Charitable Trust, and Bakethin Finance Plc, which is a wholly owned subsidiary of Bakethin Holdings Limited. The principal activity of Bakethin Finance Plc is as a special purpose financing vehicle.

The registered office of the two quasi-subsidiaries is c/o Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, United Kingdom, EC2R 7AF.

12. Inventories

	2023 £'m	2022 £'m
Raw materials and consumables	8.0	6.2

13. Trade and other Receivables

	2023 £'m	2022 £'m
Trade receivables	212.7	201.0
Doubtful debt provision	(92.3)	(94.2)
Income tax recoverable	19.6	19.8
Amounts owed by other Group companies	3.4	3.8
Other receivables	8.4	18.3
Prepayments	4.7	3.4
Interest prepayments	1.8	1.6
Accrued income	88.0	82.2
	246.3	**235.9**

Amounts owed by other Group companies includes £nil (2022: £0.4m) in respect of tax losses surrendered by the Company. The remaining amounts owed by other Group companies include £2.5m due from NWGL (2022: £2.3m) and £0.9m (2022: £1.1m) due from fellow subsidiary companies, which are due on demand with no fixed repayment date and bear no interest.

Other receivables of £8.4m is made up of VAT amounts receivable.

14. Trade and other Payables

	2023 £'m	2022 £'m
Trade payables	36.2	41.1
Amounts owed to other Group companies	2.9	1.5
Taxation and social security	3.2	3.2
Receipts in advance	23.3	24.0
Income tax payable	-	1.3
Other payables	14.1	10.4
Deferred income	11.6	1.1
Capital accruals	37.4	32.5
Interest accruals	49.4	39.1
Other accruals	42.1	39.8
	220.2	**194.0**

Included in amounts owed to other Group companies is £1.2m (2022: £nil) payable in respect of tax losses surrendered to the Company. The remaining amount of £1.6m (2022: £1.5m) is owed to NWGL and is due on demand with no fixed repayment date and bears no interest. Income tax payable includes amounts owed to related parties of £nil (2022: £1.3m) relating to tax losses surrendered to the Company.

Other payables of £14.2m predominantly comprises of retentions and deposits held, provisions and third-party cash collected.

15. Borrowings

	Note	2023 £'m	2022 £'m
Current:			
Bank overdrafts		146.0	62.8
Current instalments due on external borrowings	15(a)	29.0	192.7
Current instalments due on internal borrowings	15(b)	33.0	407.6
Current instalments due on leases	16	0.5	2.7
		208.5	**665.8**
Non-current:			
Non-current instalments due on external borrowings	15(a)	484.2	466.0
Non-current instalments due on internal borrowings	15(b)	2,872.8	2,041.9
Non-current instalments due on leases	16	63.6	58.8
		3,420.6	**2,566.7**

(a) External borrowings

Bank overdrafts are repayable on demand and bear interest at an average rate of 3.69% during the year.

Loans wholly repayable within five years amount to £260.4m (2022: £434.1m).

Loans not wholly repayable within five years amount to £285.8m (2022: £282.6m) and bear interest rates in the range 0.42% to 3.22%.

The fair value loss on the Company's outstanding interest rate and RPI swaps in the year to 31 March 2023 was £9.5m (2022: loss of £25.4m) in relation to interest rate swaps with a notional principal of £350m (2022: £350m).

(b) Internal borrowings

Included in internal borrowings is £33m (2022: £58.1) owed to NWGL in respect of an overnight borrowing which incurs interest at a rate of 5.25% (2022: 1.75%).

All other internal borrowings listed below were issued by NWF and guaranteed by the Company:

Loan type	Principle value £'m	Maturity date	Interest rate %	Balance at 31 March 2023 £'m	Balance at 31 March 2022 £'m
Fixed rate Eurobond	350.0	Feb-23	6.875	-	349.5
Fixed rate Eurobond	350.0	Apr-33	5.625	344.4	344.1
Index linked Eurobond	150.0	Jul-36	2.033	270.4	240.3
Index linked Eurobond	60.0	Jan-41	1.6274	107.2	95.4
Index linked Eurobond	100.0	Jul-49	1.7118	177.6	158.1
Index linked Eurobond	100.0	Jul-53	1.7484	177.6	158.1
Fixed rate Eurobond	360.0	Jan-42	5.125	343.1	342.6
Fixed rate Eurobond	300.0	Oct-26	1.625	299.1	298.8
Fixed rate Eurobond	300.0	Oct-27	2.375	298.5	298.2
Index linked Private Placement	100.0	Oct-39	CPI + 0.242	117.4	106.3
Fixed rate Eurobond	400.0	Oct-34	6.375	390.9	-
Fixed rate Eurobond	350.0	Feb-31	4.5	346.6	-
	2,920.0			**2,872.8**	**2,391.4**

16. Leases

The Company holds leases in respect of land, buildings and infrastructure assets, and to acquire plant, machinery and motor vehicles.

Land and building rent reviews are triggered by the lessor and typically take place every three to five years, at which point there may be an increase in rental payments. There are no purchase options or escalation clauses in respect of these leases and the terms of renewal are governed by Landlord and Tenant legislation. There are no restrictions imposed by these lease arrangements. There are no contingent rents, escalation clauses or material renewal or purchase options. The leases impose no restrictions in respect of dividends or raising additional debt. The obligations are as follows:

	2023 £'m	2022 £'m
Maturity analysis:		
Year 1	0.5	2.7
Year 2	3.7	3.6
Year 3	3.3	3.0
Year 4	3.1	2.5
Year 5	2.7	2.4
Onwards	50.8	47.3
	64.1	**61.5**

17. Provisions

	£'m
At 1 April 2022	3.8
Charged to the profit and loss account in the year	0.2
Utilised during the year	(0.1)
At 31 March 2023	**3.9**
Analysed as:	
Current	0.1
Non-current	3.8
	3.9

In the ordinary course of business, the Company is sometimes subject to claims and potential litigation, whether from regulatory bodies, individuals or particular groups, related to one off matters. The Directors consider that, where it is possible to be estimated, a reasonable and appropriate position has been taken in reflecting such items in these Financial Statements in the note above.

Provisions reflected in the balance sheet include outstanding pension liabilities for pensions that have been awarded on a discretionary basis, mainly to former employees of water companies which have since merged with the Company. These pension liabilities have been calculated by an independent actuary, using the same actuarial assumptions as applied to the defined benefit pension scheme, and are expected to be paid over the remaining lives, which is approximately seven years.

The balance also includes estimated liabilities arising from historical pollution incidents and disputed rent reviews. In each case the timing of settlement is uncertain as a result of backlogs in the legal process due to the pandemic. The value of the provisions for each liability has not been disclosed due to the commercially sensitive nature of these legal matters.

It is not currently possible to estimate the financial effect and likely timing of any associated outflow of some other matters, given that some are in early stages of discussion, the limited likelihood of the claims against the Company being successful, or the potential range of possible outcomes, and accordingly no provision has been made in the Financial Statements. No reasonably possible financial outcome that would be significant to the Financial Statements has been identified in relation to these remaining matters at the date of the issue of these Financial Statements.

18. Grants and Deferred Income

	Capital grants and contributions £'m	Proceeds from Kielder securitisation £'m	Total £'m
At 1 April 2022	**453.0**	**85.5**	**538.5**
Additions	42.2	-	42.2
Amortised during the year	(6.0)	(7.2)	(13.2)
At 31 March 2023	**489.2**	**78.3**	**567.5**

The Kielder securitisation involved the assignment of the right to the future income stream associated with the Kielder WROA until 2034 to Reiver Finance Limited, a subsidiary company, in return for consideration of £212.1m. This capital sum is amortised to the income statement of the Company over the life of the assignment.

19. Financial Instruments

	2023 £'m	2022 £'m
Financial (assets) / liabilities that are designated and effective as hedging instruments carried at fair value:		
Interest rate swaps	(8.7)	(0.3)
Power forward contracts	(0.2)	(12.4)
Foreign exchange contracts	(0.3)	(0.1)
Financial liabilities carried at fair value through profit and loss:		
Inflation swaps	96.3	78.4
	87.1	**65.6**

At 31 March 2023, the Company held the following interest rate swap, designated as a hedge of future interest cash flows, used to convert variable rate interest payments to a fixed rate basis:

Notional amount	Start date	Termination date	Fixed rate
£150.0m	15 October 2015	15 October 2025	2.36%

At 31 March 2023, the Company held the following inflation swaps, designated as hedges of future interest cash flows, used to convert fixed rate interest payments to an index-linked basis:

Notional amount	Start date	Termination date	Index linked rate
£150.0m	15 October 2015	15 October 2025	(0.42%)
£100.0m	22 June 2017	22 June 2027	(1.10%)

At 31 March 2023, the Company held forward power contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The terms of these contracts are as follows:

Notional amount	Start date	Termination date	Price per MWH £
4,392 MWH	1 April 2023	30 September 2023	199.25

At 31 March 2022, the Company held forward power contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The terms of these contracts are as follows:

Notional amount	Start date	Termination date	Price per MWH £
11,357 MWH	1 April 2022	30 June 2022	199.25
14,851 MWH	1 April 2022	30 June 2022	175.00
39,528 MWH	1 April 2022	30 September 2022	82.00
26,352 MWH	1 April 2022	30 September 2022	168.90
13,104 MWH	1 October 2022	31 March 2023	87.00
4,392 MWH	1 April 2023	30 September 2023	64.55

At 31 March 2023, the Company held the following forward exchange contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

Currency bought	Maturity	Exchange rate	Transaction value £'m
USD 15,435	14 April 2023	1.3712	-
USD 30,870	14 April 2023	1.3900	-
USD 307,750	17 April 2023	1.3211	0.2
USD 1,154,155	28 April 2023	1.3742	0.8
USD 307,750	17 July 2023	1.3211	0.2
USD 338,750	16 October 2023	1.3211	0.3
USD 158,919	5 December 2023	1.3703	0.1
USD 338,750	16 January 2024	1.3211	0.3
EUR 26,808	25 March 2024	1.1746	-
USD 30,870	15 April 2024	1.3910	-
USD 15,435	15 April 2024	1.3716	-
USD 338,750	15 April 2024	1.3211	0.3
USD 338,750	15 July 2024	1.3211	0.3
USD 403,250	15 October 2024	1.3211	0.3
USD 403,250	15 January 2025	1.3211	0.3
USD 403,250	15 April 2025	1.3211	0.3
USD 403,250	15 July 2025	1.3211	0.3
USD 421,750	15 October 2025	1.3211	0.3
			4.0

At 31 March 2022, the Company held the following forward exchange contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

Currency bought	Maturity	Exchange rate	Transaction value £'m
USD 30,870	12 April 2022	1.3897	-
USD 15,435	14 April 2022	1.3708	-
USD 274,250	19 April 2022	1.3211	0.2
USD 274,250	22 April 2022	1.3203	0.2
USD 1,154,155	29 April 2022	1.3735	0.9
USD 274,250	15 July 2022	1.3211	0.2
USD 307,750	17 October 2022	1.3211	0.2
USD 158,919	5 December 2022	1.3703	0.1
USD 159,875	3 January 2023	1.3211	0.1
USD 307,750	17 January 2023	1.3211	0.2
USD 15,435	14 April 2023	1.3712	-
USD 30,870	14 April 2023	1.3900	-
USD 307,750	17 April 2023	1.3211	0.2
USD 1,154,155	28 April 2023	1.3742	0.8
USD 307,750	17 July 2023	1.3211	0.3
USD 338,750	16 October 2023	1.3211	0.3
USD 158,919	5 December 2023	1.3703	0.1
USD 338,750	16 January 2024	1.3211	0.3
USD 338,750	15 April 2024	1.3211	0.3
USD 15,435	15 April 2024	1.3716	-
USD 30,870	15 April 2024	1.3910	0.1
USD 338,750	15 July 2024	1.3211	0.3
USD 403,250	15 October 2024	1.3211	0.3
USD 403,250	15 January 2025	1.3211	0.3
USD 403,250	15 April 2025	1.3211	0.3
USD 403,250	15 July 2025	1.3211	0.3
USD 421,750	15 October 2025	1.3211	0.3
			6.3

20. Share Capital

	2023 £'m	2022 £'m
Authorised:		
122,650,000 Ordinary Shares of £1 each (31 March 2022: 122,650,000)	122.7	122.7
Allotted, called-up and fully paid:		
122,650,000 Ordinary Shares of £1 each (31 March 2022: 122,650,000)	122.7	122.7

NWL is a company limited by shares.

21. Additional cash flow information

Analysis of net debt as at 31 March 2023:

	Note	At 1 April 2022 £'m	Cash flow £'m	Other non-cash movements £'m	At 31 March 2023 £'m
Cash and cash equivalents		60.0	86.6	-	146.6
Loans receivable	11	1.9	-	-	1.9
Bank overdrafts	15	(62.8)	(83.2)	-	(146.0)
Loans payable	15	(3,108.2)	(169.6)	(141.2)	(3,419.0)
Leases	16	(61.5)	4.1	(6.7)	(64.1)
		(3,170.6)	**(162.1)**	**(147.9)**	**(3,480.6)**

Analysis of net debt as at 31 March 2022:

	Note	At 1 April 2021 £'m	Cash flow £'m	Other non-cash movements £'m	At 31 March 2022 £'m
Cash and cash equivalents		28.6	31.4	-	60.0
Loans receivable	11	160.9	(159.0)	-	1.9
Bank overdrafts	15	(25.2)	(37.6)	-	(62.8)
Loans payable	15	(2,874.3)	(188.9)	(45.0)	(3,108.2)
Leases	16	(62.2)	4.3	(3.6)	(61.5)
		(2,772.2)	**(349.8)**	**(48.6)**	**(3,170.6)**

As at 31 March 2023, cash at bank and in hand includes £1.6m (2022: £0.3m) of restricted cash in respect of the Kielder securitisation and is therefore unavailable for general use by the Company.

22. Financial commitments

(a) Capital commitments

	2023 £'m	2022 £'m
Contractual commitments for the acquisition of property, plant and equipment and intangible assets	243.5	61.0

In addition to these commitments, the Company has longer term expenditure plans, including investment to deliver business outcomes, maintain the health of the asset base and provide for new demand and growth in the regulated part of the business.

(b) Foreign currency commitments

At 31 March 2023 the Company held forward foreign exchange contracts of £4.0m (2022: £6.3m) for the purpose of hedging the foreign currency risk of committed future purchases.

(c) Power purchase agreement

In 2018/19 the Company signed a power purchase agreement with Ørsted, to purchase renewable energy from an offshore wind farm which will meet around 25% of the Company's energy demand. The agreement is for a ten year term at a fixed commodity price, increasing annually by CPI. The Company has concluded that the 'own use exception' applies, meaning that the power purchase agreement contract is not within the scope of IFRS 9 and therefore no further disclosures are necessary.

23. Contingent liability

Five connected claims have been issued against water and sewerage companies, including NWL, by personal search companies (PSCs) in connection with fees paid for water and drainage reports obtained in relation to property purchases. The PSCs claim that the information should have been provided free of charge, pursuant to the Environmental Information Regulations 2004. The combined value of claims against the companies in the sector is stated to exceed £100m but, in common with the other defendants, NWL denies all liability and is defending the proceedings.

In November 2021, the Company was contacted by the EA and Ofwat in relation to measures to ensure permitted 'Flow to Full Treatment' requirements are being achieved at our wastewater treatment works. In March 2022, Ofwat issued a Section 203 notice, which requires further information to be provided. These investigations are ongoing and it is uncertain as to whether or not any formal action will be taken which could result in a financial liability.

24. Pensions

During the year, NWL participated in the Group defined benefit pension scheme, NWPS. Following a consultation process with members, the Scheme was closed to future accrual of benefits with effect from 31 May 2022, with members being enrolled in the LifeSight defined contribution scheme.

The assets of the NWPS are held separately from those of the Group in independently administered funds. The most recent actuarial valuation of the NWPS was at 31 December 2019. At that date, the value of assets amounted to £1,066.7m and the liabilities were £1,291.9m, resulting in a deficit of £225.2m and a funding level of 82.6%. The next actuarial valuation has commenced and will be dated as at 31 December 2022.

Under the schedule of contributions, employers' contributions were set at a rate of £13m per annum with effect from 1 January 2020, increasing annually by RPI, and employee contribution rates were between 6% and 8% of pensionable salary, dependent upon which section of the Scheme the employee was a member of. These contributions ceased when the Scheme was closed to future accrual of benefits.

Deficit recovery payments were set at £23.8m with effect from 1 April 2022, increasing annually by RPI thereafter. The deficit reduction payments were set with the objective of removing the deficit by 31 August 2027. These payments have continued since the Scheme was closed to future accrual of benefits

Employers' contributions (including associated company contributions) of £29.5m were paid in the year to 31 March 2023, of which £23.8m related to deficit reduction. For the year to 31 March 2024, employers contributions are projected to be £27.1m in respect of deficit reduction and £1.5m in respect of Scheme expenses.

The Company participates in the LifeSight master trust, a defined contribution pension arrangement for non-associated employers. There were 3,104 active members in defined contribution pension arrangements at 31 March 2023 (2022: 2,101), including employees enrolled following the closure of the defined benefit scheme.

Prior to the closure of the NWPS, members chose to contribute either 3%, 4% or 5% of salary, with employers contributing at either 6%, 7% or 8% depending on the member contribution rate. Following the closure of the NWPS, the defined contribution scheme was revised with the employee contribution rates of 3%, 4% or 5% being matched by employer contribution rates of 6%, 8% or 10% respectively. In addition, as a transitional arrangement until 31 March 2025, former members of the NWPS who contribute 5% receive an employer contribution of 12%. With effect from 1 April 2025, the highest rate of employer contribution will be 11%.

The contributions paid to defined contribution pension arrangements by the Company in the year totalled £9.8m (2022: £7.6m).

The additional disclosures regarding the defined benefit scheme as required under FRS 101 and the relevant impact on the Financial Statements are set out below. A qualified actuary, using revised assumptions that are consistent with the requirements of FRS 101 has updated the actuarial valuation described above as at 31 March 2023. Investments have been valued, for this purpose, at fair value.

FRS 101 acutarial assumptions:	2023	2022
Discount rate	4.90%	2.80%
Pay increases[1]	0.00%	2.50%
Price inflation (RPI)	3.20%	3.45%
Price inflation (CPI)	2.80%	3.05%
Pension increases linked to RPI	3.20%	3.45%
Pension increases linked to CPI	2.80%	3.05%
Mortality assumptions[2]		
- Life expectancy for a member aged 65 - female (years)	24.2	24.1
- Life expectancy for a member aged 65 - male (years)	21.6	21.6

[1] including promotional salary scale
[2] scheme specific bespoke 'Vitacurves' which reflect the characteristics of the Scheme membership

The fair value of the assets in the NWPS and the present value of the liabilities in the Scheme are shown below:

	2023 £'m	2022 £'m
Equities	172.2	303.5
Corporate bonds	59.9	71.3
Government bonds	383.7	454.5
Property related funds	13.2	47.9
Cash	2.6	11.9
Other	191.5	272.5
Total fair value of assets	**823.1**	**1,161.6**
Present value of liabilities	**(805.2)**	**(1,144.1)**
Surplus	**17.9**	**17.5**

The amounts recognised in the income statement and in the statement of comprehensive income are analysed as follows:

Recognised in the income statement:	2023 £'m	2022 £'m
Current service cost	2.0	14.8
Administration cost	1.5	1.4
Past service cost	(13.0)	0.5
Recognised in operating costs in arriving at operating profit	**(9.5)**	**16.7**

	2023 £'m	2022 £'m
Net interest (credit) / cost on plan obligations	(0.8)	2.4
Recognised in finance costs	**(0.8)**	**2.4**

Recognised in the statement of comprehensive income:	2023 £'m	2022 £'m
	-	(0.3)
Changes in financial assumptions	339.1	94.9
Loss on assets (excluding amounts included in finance costs)	(345.2)	41.4
Other actuarial (losses)	(33.4)	(8.2)
Net actuarial (losses) / gains	**(39.5)**	**127.8**
Contributions made by associated company	0.1	0.1
Net actuarial (losses) / gains	**(39.4)**	**127.9**

The past service credit of £13.0m reported in 2022/23 is the result of two special events which occurred during the period. This comprises:

- a curtailment gain of £1.4m resulting from the closure of the Scheme to future accrual; and
- a negative past service cost of £11.6m resulting from the implementation of a Level Pension Option.

The Level Pension Option provides members with the opportunity to take a higher starting pension between normal retirement age and their state pension age, in exchange for a lower pension for the remainder of their lives.

Changes in the present value of the defined pension obligations are analysed as follows:

	2023 £'m	2022 £'m
At start of period	**1,144.1**	**1,234.9**
Current service cost	2.0	14.8
Administration cost	1.4	1.4
Past service (credit) / cost	(13.0)	0.5
Interest cost	33.5	26.1
Contributions by plan participants	-	0.1
Benefits paid	(57.1)	(47.3)
Remeasurement:		
Changes in demographic assumptions	-	0.3
Changes in financial assumptions	(339.1)	(94.9)
Other actuarial gains	33.4	8.2
At end of period	**805.2**	**1,144.1**

Changes in the fair value of plan assets are analysed as follows:

	2023 £'m	2022 £'m
At start of period	**1,161.6**	**1,107.3**
Interest income on scheme assets	34.3	23.7
Contributions by employers (including associated company)	29.5	36.4
Contributions by plan participants	-	0.1
Benefits paid	(57.1)	(47.3)
Loss on assets (excluding amounts included in finance costs)	(343.7)	41.4
At end of period	**823.1**	**1,161.6**

Nature of benefits, regulatory framework and other entity's responsibilities for governance of the Scheme

The Scheme is a registered defined benefit scheme subject to the UK regulatory framework for pensions, including the scheme specific funding requirements. The Scheme is operated under trust and as such, the Trustee of the Scheme is responsible for operating the Scheme and it has a statutory responsibility to act in accordance with the Scheme's Trust Deed and Rules, in the best interest of the beneficiaries of the Scheme, and UK legislation (including Trust law). The Trustee has the power to set the contributions that are paid to the Scheme.

Risks to which the Scheme exposes the Company

The nature of the Scheme exposes the Company to the risk of paying unanticipated additional contributions to the Scheme in times of adverse experience. The most financially significant risks are likely to be:

- Members living for longer than expected;
- Higher than expected actual inflation;
- Lower than expected investment returns; and
- The risk that movements in the value of the Scheme's liabilities are not met by corresponding movements in the value of the Scheme's assets.

Asset-liability matching strategies used by the Scheme or the Company

The Trustee's current investment strategy, having consulted with the Company, is to invest the majority of the Scheme's assets in a mix of equities and bonds, in order to strike a balance between:

- maximising the returns on the Scheme's assets; and
- minimising the risks associated with lower than expected returns on the Scheme's assets.

The Trustee is required to regularly review its investment strategy in light of the term and nature of the Scheme's liabilities.

Sensitivity to key assumptions

The costs of a pension arrangement require estimates regarding future experience. The financial assumptions used for FRS 101 reporting are the responsibility of the Directors of the Company. These assumptions reflect market conditions at the balance sheet date. Changes in market conditions which result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increases of salaries, deferred pension revaluation or pensions in payment), can have a significant effect on the value of the liabilities reported.

There has been no change in the methodology used to assess the impact of changes in assumptions. Approximate adjustments were made to the defined benefit obligations reflecting the mean term of the liability.

Impact of changes in assumptions compared with actuarial assumption for the NWPS:

Actuarial value of liabilities on 31 March 2023:

	£'m
0.25% reduction in discount rate	835.7
0.25% increase in inflation	828.5
1 year increase in life expectancy	830.2

Maturity profile of the defined benefit obligation for the year ended 31 March 2023:

	Number of members	Liability split (%)	Duration (years)
Active members	-	-	-
Deferred members	1,887	47	21
Pensioners	3,189	53	10

25. Related party disclosures

The Company is a wholly owned subsidiary of NWGL, whose publicly available consolidated Financial Statements include the Company. Accordingly, the Company is exempt under the terms of FRS 101 from disclosing transactions with other members of the Group headed by NWGL.

Transactions with related parties outside of the NWGL group comprised purchases of £10.4m (2022: £9.4m) and sales of £0.1m (2022: £0.1m) and tax losses claimed with a value of £nil (2022: £0.7m). As at 31 March 2023 £0.9m (2022: £1.3m) is owed from these companies in respect of sales or rebates, and £nil (2022: £nil) is owed to these companies in respect of purchases.

The Company acquires vehicles from Vehicle Lease and Service Limited, an associated company, on a lease basis. During the year, new leases of £4.4m (2022: £4.0m) were entered into and capital repayments of £4.0m (2022: £4.0m) were made. The year end lease creditor was £11.8m (2022: £12.0m) and year end trade creditor was £0.9m (2022: £1.3m).

The companies with which NWL had transactions during the year, included in the above balances, were as follows:

- Vehicle Lease and Service Limited;
- Wave Ltd

26. Ultimate parent undertaking and controlling party

NWGL is the Company's immediate parent undertaking and, in the Directors' opinion, the Company's ultimate parent undertaking and controlling party. NWGL is incorporated in England and Wales

The parent undertaking of both the largest and smallest group of undertakings for which group Financial Statements are drawn up, and of which the reporting company is a member, is NWGL. Copies of NWGL's group Financial Statements will be available in due course from its registered office at Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ.

Independent Auditor's report to the members of Northumbrian Water Limited

Report on the audit of the Financial Statements

1. Opinion

In our opinion the financial statements of Northumbrian Water Limited (the 'Company'):

- Give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its loss for the year then ended;
- Have been properly prepared in accordance with United Kingdom adopted international accounting standards; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- The income statement;
- The statement of comprehensive income;
- The balance sheet;
- The statement of changes in equity;
- The cash flow statement; and
- The related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Provision for bad and doubtful debts. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used in the current year was £12.5m which was determined based on 3.4% of the Company's Earnings Before Interest, Tax and Amortisation (EBITDA).
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no changes to our approach from the prior year's.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Assessing access to financing facilities at the balance sheet date, the nature of facilities, repayment and expiration terms and associated covenants;
- Evaluating management's going concern assessment in light of information available around upcoming risks;
- Evaluating the amount, and performing sensitivity analysis, 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;
- Assessing the sophistication of the model used to prepare the forecasts, testing of clerical accuracy of those forecasts, and assessing historical accuracy of forecasts prepared by management; and
- Evaluating the disclosure made in the financial statements.

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.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1	Provision for bad and doubtful debts
Key audit matter description	As stated in the critical accounting judgements and key sources of estimation uncertainty in note 1(q) of the Financial Statements, the value of the bad debt provision is determined by applying a range of percentages to debt of different ages with higher percentages applied to different categories of debt depending on an assessment of the level of risk of default. There is a significant customer base, and regulations do not allow the Company to interrupt water supply to domestic customers. The valuation of the bad debt provision is sensitive to the specific percentages applied, which are judgemental. At 31 March 2023 the bad debt provision was £92.3m (2022: £94.2m) and is therefore a significant balance. The provision is based on assumptions made on the forecast and historic collectability of debts across both invoiced amounts and accrued revenues. The provision for bad and doubtful debts is complex in nature and subject to estimation uncertainty and hence we have considered this to be a key audit matter. Due to the complexity of the provision, we deem this as a potential fraud risk for our audit. Further details are included within note 1(q) and 13 to the Financial Statements.
How the scope of our audit responded to the key audit matter	• We obtained an understanding of management's relevant controls surrounding the estimate; • We compared the assumptions made by management in calculating the provision to evidence provided from historical collection data; • We tested a sample of bad debt write offs occurring throughout the year as well as instances where the provision has been utilised; • We tested the cash collection information given it is a key input into the debt matrix. • We tested the accuracy of the aged debtor balance and the ageing categories applied; • We assessed and challenged the reasonableness of judgements made in respect of likely future events; • We reviewed the receivables ageing report and assessed whether overdue debtors are appropriately provided for; and • We reviewed the disclosure made in the financial statements in line with FRS 101 accounting standards.
Key observations	We have concluded that management's judgements are appropriate and that the provision for bad and doubtful debts was appropriately stated.

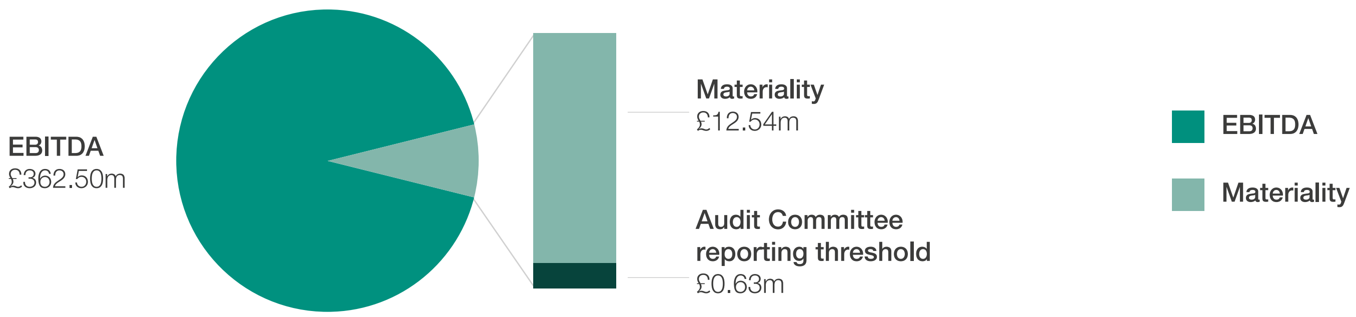
6. Our application of materiality

6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Materiality	£12.5m (2022: £11.4m)
Basis for determining materiality	The materiality equates to 3.4% of the Company's Earnings Before Interest, Tax and Amortisation (EBITDA) (2022: 3.5% of EBITDA).
Rationale for the benchmark applied	EBITDA was selected as the appropriate measure on which to determine materiality as this is the key metric the Board use to assess the performance of the business.



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

- The quality of the control environment;
- The low turnover of management or key accounting personnel; and
- Our cumulative knowledge of the Company.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £634,000 (2022: £570,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. There have not been any changes in our scoping compared to the prior year. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2 Our consideration of the control environment

We involved our IT specialists to assess relevant controls over the Company's IT systems.
As planned and reported to the Audit Committee, we did not adopt a controls reliance approach in the current year.

7.3. Our consideration of climate-related risks

As part of the audit, we made enquiries of management to understand the process they have adopted to assess the potential impact of climate change on the financial statements. Management considers that the impact of climate change does not give rise to a material financial statement impact. We used our knowledge of the Company to evaluate management's assessment. We particularly considered how climate change risks could impact the assumptions such as capital expenditure. We also considered the consistency of the disclosures in relation to climate change made in the other information within the Annual Report at page 31 with the financial statements and our knowledge from our audit.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- The nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- The Company's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board in the March 2023 meeting;
- Results of our enquiries of management, internal audit, other individuals involved in the financial reporting process and the Audit Committee about their own identification and assessment of the risks of irregularities.
- Any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - The internal controls established to mitigate risks of fraud or non-compliance with laws ` and regulations;

  The matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions and IT, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: Provision for bad and doubtful debt, and revenue recognition relating to the valuation of unbilled revenue accrual. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, HMRC and OFWAT Pricing and customer service requirements.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the Company's compliance with the following: regulations surrounding pollution of water, the Drinking Water Inspectorate (DWI), the Consumer Council for Water, Health & Safety regulations, the Employment Act and with the Environment Agency.

11.2 Audit response to risks identified

As a result of performing the above, we identified the provision for bad and doubtful debt as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements.
- Enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims.

- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with any relevant regulatory authorities; and
- In addressing the risk of fraud in revenue recognition, we have performed the following procedures:
  - Obtained an understanding of management's relevant controls over the unbilled revenue accrual;
  - Performed substantive testing of the accrued revenue calculation and assessed the appropriateness of accounting estimates made by management;
  - Reviewed and understood monthly movements for the period accrued for as well as challenged and corroborated substantial variances;
  - Reperformed and challenged management's retrospective review of the March 2022 balance;
  - Tested any manual adjustments made by management; and
  - Challenged the accrued revenue balance for any potential recoverability issues by tracing a sample of subsequent billing and/or cash payments where applicable.

In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

13. Matters on which we are required to report by exception

13.1 Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Johnson FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Leeds
United Kingdom
14 July 2023

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Northumbrian Water Limited (registered in England and Wales with Company No. 02366703) trades and operates as ‘Northumbrian Water’ in the North East of England and as ‘Essex & Suffolk Water’ in the South East of England.