Northumbrian Water Limited Annual Report and Financial Statements

for the year ended
31 March 2024

NORTHUMBRIAN WATER *living water*

ESSEX&SUFFOLK WATER *living water*

Registered company number 02366703

Annual Report and Financial Statements

for the year ended 31 March 2024

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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 **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 continuously strive to meet the high expectations that can reasonably be expected of us.

During the year our industry has been the subject of much criticism particularly in relation to environmental performance and the ability to consistently deliver high quality drinking water. Whilst the vast majority of criticism does not apply to Northumbrian Water, I acknowledge we are not perfect and I recognise the need for the Company and its Board to continually improve our performance.

As a Board, we remain committed to continuing our drive to be the national leader in sustainable water and wastewater services and to delivering outstanding service to our customers and other stakeholders, now and into the future.

Together, we are facing the challenges of an ever-evolving business landscape and the issues facing our industry by formulating strategies to improve standards further, deliver leadership and show support for our regions and communities.

The Board's Statement of our Purpose and our Vision, which is set out in our Business Model on **page 10**, reflects our commitment to achieving this and the values which underpin our approach.

Our Performance scorecard on **page 25** outlines how the Board sets the Company's goals in respect of the services we provide to our customers and other stakeholders and how we are performing against our targets, which are aligned to how we structure management rewards to incentivise delivery of these aspirations.

The Board recognises the need 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 well, assisted by the robust governance arrangements we have in place, which are set out in detail in our Governance report on **page 72**.

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 **pages 26 to 57**.

Our Chief Executive Officer (CEO), Heidi Mottram, describes in her Review the progress made in the fourth 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.

As a Board, we are conscious of the increasing expectations of our stakeholders, especially in respect of the environment, which will require significant further investment to attain. We have much to reflect on with pride this year, having made significant environmental progress, including no category 1 or 2 pollution incidents, improved water quality, record-low leakage and enhanced water management. The company's performance and leadership in Environmental, Social and Governance (ESG) activities has continued to attract accolades and visible support from campaigning organisations.

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

Looking ahead

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

We attended customer research panels with 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.

Soon, we will receive Ofwat's Draft Determination (DD) which will set out the increased scale of the investment programme we need to deliver for the 2025-30 period. Ofwat has already indicated that this is likely to involve the largest investment programme we have ever undertaken, more than double our programme in the current 2020-25 period.

Whilst this scale of investment will bring its challenges, it also provides the opportunity to make a step change in performance for our customers and in relation to the environment, in particular reducing storm overflows. We have already started bringing forward this investment and established strong supply chain partnerships to ensure that we are in the best possible place to deliver such a significant programme of work.

In addition to NWL's own performance contribution to achieving future goals, Ofwat, as regulator, will have a key role in determining what resources are available to achieve these targets and against what standards the Company will be measured, as also defined by Defra and the Environment Agency.

A J Hunter
Chairman

Chief Executive Officer's review

Our commitment to being the national leader in sustainable water and wastewater services remains steadfast.

Guided by our purpose and ethical culture, every plan and endeavour must align with our overarching vision.

I am pleased that, yet again, we have achieved a significant portion of the targets outlined in our balanced scorecard, especially as our ambitious goals for 2020-25 were carefully crafted based on invaluable input from our customers. However, we are never complacent and continue to challenge ourselves to go further, investing heavily and working hard to further demonstrate our track record for protecting and enhancing the environment, with some of the highest standards for bathing water quality, the cleanest rivers, and the lowest levels of pollution.

Whilst there is much to be pleased about in our environmental performance, it is important to our colleagues, customers, shareholders and wider society that we remain balanced in our approach and ensure that our performance is leading across all our five strategic pillars and does not focus on any single measure to the detriment of the others.

This is why our performance evaluation is underpinned by a balanced scorecard designed to deliver our strategic vision and purpose. This robust approach assesses annual performance against pivotal metrics in alignment with our core strategic themes. The majority of these metrics are non-financial, underscoring our commitment to customer satisfaction, environmental stewardship, employee wellbeing and healthy communities.

Our ambition to be the national leading water company guides decision making and actions across all aspects of NWL. This means that we set our balanced scorecard targets in line with establishing and maintaining this position in the market.

In the case of the levels of service we provide to our customers and developers, we have looked outside of the water industry to understand what leading practice looks like and set world-class targets on customer service.

In line with Ofwat's updated guidance for 2023/24, which encourages companies to provide clarity on why each target was set and how it can be considered stretching, we have introduced a metric-by-metric summary within our balanced scorecard, which can be viewed on **page 25**.

Customer

We retain an unwavering commitment to delivering unparalleled customer experiences. Whilst we are pleased with our upper quartile performance for customer satisfaction, we are determined to regain the top spot next year and continue to focus on the detail of making every customer journey a satisfying experience.

We have an ambitious target to eradicate water poverty in our operational areas by 2030 and this continues to drive us to design and implement policies and services which are inclusive and affordable for all. As the cost of living crisis has continued to push more people into water poverty, I am pleased that we have been able to increase the number of our customers receiving support with their bills by 25% and the number of customers on our priority services register has increased by 35,000 households, meaning more customers will get the help they need.

It is particularly important that we have achieved all of our sewer flooding targets this year. We are very proud of this achievement as sewer flooding is one of the worst service failures our customers can experience. We have delivered significant reductions in flooding since the start of the price review period, reducing internal sewer flooding incidents by more than 65% since 2019/20. This year, for the first time, we have achieved our regulatory Performance Commitment (PC) on all three measures of sewer flooding, internal, external and repeat, despite it being a much wetter year with rainfall up by c.50% compared to the previous year. This is a significant milestone in our efforts to enhance infrastructure, mitigate environmental risks and deliver an unrivalled service to our customers.

Environment

Caring for the environment is a core part of our purpose and this year we launched '**Restore and Regenerate: Our Environment Strategy to 2050**'. This strategy builds on our achievements to date and sets our direction for the future to achieve our environmental priorities from enhancing our catchments, rivers and coastal waters and reducing the water we take from the environment to taking effective climate action, enhancing biodiversity and eliminating waste.

We've committed to significant investments in the current regulatory period to minimise our reliance on storm overflows and enhance our wastewater infrastructure, but we know that we need to move faster and have proposed a substantial increase in environmental investment in our business plan for the next five years, and beyond. As part of this programme we will prioritise nature-based solutions whenever feasible.

In the year, we have maintained our strong environmental performance and we had no serious category 1 or 2 pollution incidents for the second successive year. Our bathing waters continue to be amongst the cleanest in the country with 32 out of 34 classed as Excellent or Good. Additionally, we're proud to announce our groundbreaking venture into drone technology for real-time water quality assessments, marking a significant step-change in the utilities industry.

Water

We have continued to reduce levels of leakage from our water networks, achieving some the lowest levels of leakage ever recorded in each of our operating regions. In addition to initiatives around pressure management optimisation and use of AI sensor technology to make our leakage detection surveys more efficient, we have continued to scale up our use of No-Dig repair technology, which revolutionises water pipe repairs, reducing cost, minimising disruption and improving team safety.

We're pleased to have made significant strides on improving water quality standards and are continuing to deliver on our plans to enhance water treatment, collaborating closely with the Drinking Water Inspectorate (DWI). We have also continued to excel in customer-facing measures like taste, odour, and discoloration and also improved our performance on interruptions to supply.

Our People and the Communities we serve

Our Purpose is to care for the essential needs of our environment and communities, now and for generations to come. This year, our commitment to living our Purpose was recognised through significant external accreditations, including our 13th consecutive recognition on the World's Most Ethical Companies list, a testament to our unwavering focus on governance, employment practices, and social responsibility.

Our partnership approach is pivotal in achieving our goal to build successful economies in our regions. Surpassing our target of spending at least 60p in every £1 with local suppliers underscores how we use our operations to drive economic growth and social value locally. Our collaboration with like-minded businesses, exemplified by the County Durham Pound group, has earned accolades like the Best Public Sector Project award. We have maintained our significant annual investment in our communities by giving time, expertise and resources to their important causes with 35% of our colleagues volunteering.

None of these achievements are possible unless we have the right people, with the right skills, in the right culture, enabled to deliver customer-focused business objectives and thrive in an evolving world of work. I am immensely proud of the work that my colleagues do every day and in often difficult circumstances to make sure that our customers have reliable and affordable water and wastewater services.

It is of the utmost importance that their work is carried out to the highest standards of health and safety practices so that every colleague and contractor goes home safe, every day. We continue to see positive employee engagement with our established safety awareness tools and good outcomes attained with the support of visible safety leadership, resulting in the number of High Potential incidents reducing by 30% compared to 2022.

Also important to our culture, the work started in 2021 on our Together for Inclusion, Diversity and Equity (TIDE) strategy has driven behaviours that enable a more diverse workforce and has led to increases in the numbers of colleagues in all under-represented groups (female, non-white or with a reported disability). We know there is more to do to achieve our ambitions and we are continuing targeted engagement and advocacy of under-represented groups in our workforce and customer populations.

We take immense pride in our responsible business practices, evident in being the sole water company awarded the prestigious Good Business Charter for the third successive year. Additionally, our employee engagement score of 77%, reaffirms our position as a leading 'Great Place to Work'.

Looking forward

We have completed four years of our current five-year price review period and have made significant progress towards the ambitious goals we set out in our PR19 business plan. We will continue to drive this forward over the coming year, building on our strong foundations in areas such as our highly engaged workforce, our industry leading customer service and ever improving environmental performance. Although we are pleased to be the most trusted water company in England, we are committed to driving up standards further. There is more work to do to improve our performance across water quality and discharge permit compliance and we continue to invest in the resilience of our assets. I am confident in the detailed plans and investments in place to address these areas.

We submitted our Business Plan for the period 2025-2030 in October 2023, setting out our ambitious goals for upgrading infrastructure, restoring and regenerating the environment and continuing to raise the bar on service quality. Our aim is to emerge as an even more customer focused, environmentally conscious industry leader.

We have committed to a significant increase in environmental improvements and water supply resilience and have already started work on these areas, establishing our Living Water Enterprise with twelve strategic supply chain partners to deliver this programme, and founded on the principles of economic sustainability and delivering social value.

Alongside additional contributions from our investors and borrowing by the company, the increased investment will require an increase in customer bills, which we appreciate will be unwelcome. To make this more manageable for our customers we have committed to a four-fold increase in financial support for those customers who need it most.

Our business is inherently long term, and we created our business plan in the context of our long-term delivery strategy to 2050, which enables us to clearly identify the areas where we will need to make new investment to secure resilient services for customers and address the challenges posed by the impact of climate change. These climate related risks, including ensuring sustainable water supplies, protecting the local environment, and reducing carbon, are considered in our first Climate-related Financial Disclosure (CFD) report on **page 39**.

Such challenges also bring opportunities. By embracing innovation and new technologies, we can create a more sustainable and resilient water system for the future. We can work with our customers and communities to promote water conservation and reduce demand and we can invest in renewable energy sources and new ways of treating and distributing water to reduce our carbon footprint.

We are proud of our achievements to date, but we are never complacent and will continue to drive further improvements for our customers and the environment over the coming years.

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 waste water 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 25**.

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.

Our operating areas

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.

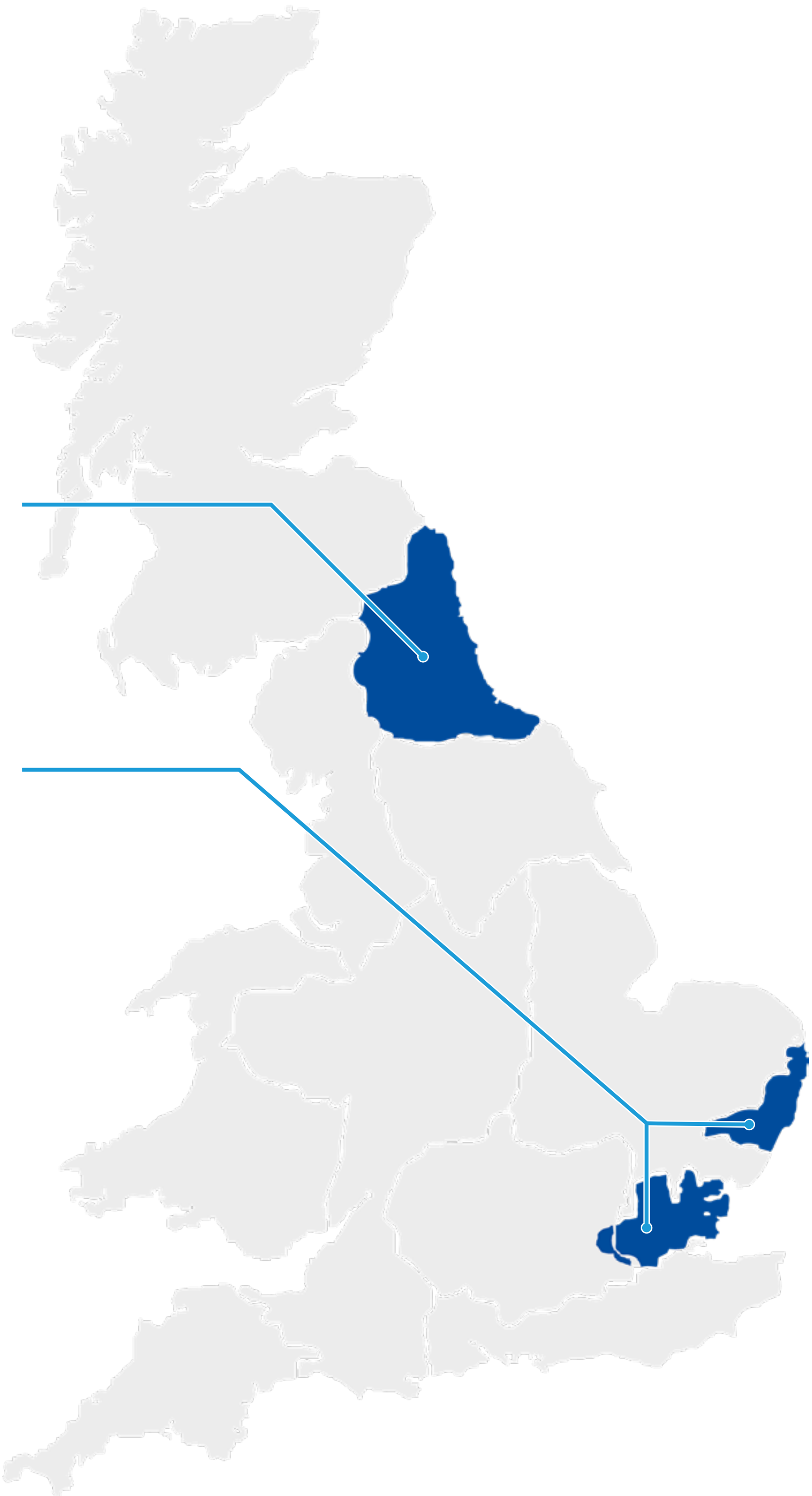
NW supplies water and wastewater services to **2.7 million** people in the major population centres of **Tyneside**, **Wearside** and **Teesside** as well as the large rural areas of **Northumberland** and **County Durham**. We provide wastewater services only in **Hartlepool**.

ESW supplies water services to **2 million** people in **Essex** and **0.4 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;
- **26,366km** of water mains;
- **412** sewage treatment works;
- **966** sewage pumping stations;
- **30,237km** of sewers.

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

NWL and its subsidiaries are referred to as the ‘Group’ in this report. NWL is also part of the Northumbrian Water Group (NWGL Group). Further information about the structure and ownership of NWL and the NWGL Group is provided on **page 59** of this report.



Our highlights

Business Plan for 2025-30
‘Our Shared Vision for the Future’ is our most ambitious plan ever

Reducing water poverty
More than 130,000 customers receiving affordability support

Environment strategy
Restore and Regenerate: Our Environment Strategy to 2050 launched

Pollution incidents
No category 1 or 2 pollutions, for the second year running

Sewer flooding
Achieved performance commitment on all measures for the first time

Innovation fund success
Further £10.2m of projects awarded from Ofwat Innovation Fund

Living Water Enterprise
Launched ambitious and innovative new supply chain partnerships to deliver AMP8 investment programme

Employee trust and engagement
77% Trust Index score

Ethisphere – world’s most ethical companies
Recognised for the 13th time and only water company on the list

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 share and help to advance their interests, including in relation to the environment in our regions.

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

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 • Customer letters	• 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 • Customer letters
Consumer Council for Water (CCW) CCW helps 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 groups	• 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 the activities and services that enable us to achieve our ambitious goals on a daily basis. 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, Viva Engage • 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 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 had regard to the matters stated in section 172(1)(a) to (f) of the Companies Act when performing their duties over the course of this year and provides 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 15 to 18**.

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

The nature of our business, with its pricing and 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 PR24 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.

The PR24 Board Sub-group, which was established during the previous year, continued 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 approved key strategic decisions and the Plan itself prior to its 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 117 to 122**. During the year, the Board has also reviewed its Dividend Policy and paid particular attention to how it applied the policy when approving dividends.

The Board, through its Risk & Compliance Sub-committee (R&CSC), monitors the principal risks and uncertainties facing the business including longer-term emerging risks. A detailed review of the emerging risks is carried out each year, most recently in November 2023, which considers horizon scanning reports from external sources. The principal risks and uncertainties, and how they are mitigated, are reported on **pages 66 to 71**.

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. To further support our colleagues to share their reviews and report any concerns, we have instigated the 'Safe to Say' project during the year to ensure that we have robust processes and channels so that colleague voices can be heard and acted upon, and to help us to strengthen our transparent and inclusive culture.

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. In a clear indication of positive progress towards these milestones, the Company is proud to have been recognised during the year as Best Company in the Northern Power Women Awards for our work to support career progression for female colleagues in our business and supply chain.

NWL has 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.

During the year, the Board approved the Company to enter an Asset Backed Funding (ABF) arrangement in respect of its defined benefit pension scheme, the Northumbrian Water Pension Scheme (NWPS). This arrangement provides greater security to the pension scheme to the benefit of its members, both past and present employees. It also allows the pension actuarial deficit to be repaid over a longer time period of 15 years which is beneficial to both the pension scheme and NWL's customers, as it spreads the pension deficit recovery payments over a longer period, improving short term cash flows and financial resilience.

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 15 to 18**.

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.

During the year, the Board approved framework contracts for seven partners to provide design and construction services for delivery of the substantial capital investment programme in AMP8. This added to the five contracts for technical and commercial consultants appointed in the previous year. These partners will work together through the Living Water Enterprise structure to deliver the investment commitments effectively and efficiently.

Each year the Board also approves NWL's Modern 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 24 to 58**, provides further detail on the Company's activities in relation to climate and environmental concerns.

NWL's Purpose, Vision and Values are clearly defined and understood inside and outside of the company. Together they drive a strong positive culture, which is evidenced with NWL's appearance over the last 13 years as the only water company of the Ethisphere Institute's World Most Ethical Businesses list, being the first water company to achieve the Good Business Charter in 2020 and an employee trust score of 77% in the 2023 Great Place to Work survey. In CCW's 2023 research into customer centric company culture NWL is frequently cited as the example of 'what good looks like'.These successes illustrate that ESG matters have always been central to how NWL operates and as such, Board and management believe that it is appropriate to formalise NWL's commitment to ESG matters at Board level by establishing an ESG Board Committee. The first meeting of the new ESG Committee is planned in the third quarter of 2024 and this committee will assume responsibility for oversight for and reporting to the Board on ESG issues.

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 receives 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 2020-2025, 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. In October 2023 we published our **Environment Strategy**, which sets out our long-term ambition for the environment.

The Board supports the nine ambitious pledges that we are committed to achieve in our Vision for Coast and Rivers. We believe that these 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 restore and regenerate our natural environment, and our Environment Strategy sets our long-term environmental ambition for this. . Further information can be found on our website at: **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 we 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. The campaign was endorsed by Parliament in October 2022, and most recently, this campaign has led to the Government announcement on banning plastics in wipes.

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. The Living Water Enterprise structure has been set up incorporating non-financial targets linked to business objectives. Investment choices will be expected to support environmental priorities, including carbon reduction, eliminating waste and biodiversity net gain, and social value aims, such as promoting local skills and employment and healthier, safer and more resilient communities.

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 adheres to Ofwat's Board leadership, transparency and governance principles, subject to the exceptions explained on **pages 81 to 88**.

It also operates in accordance with the Wates Corporate Governance Principles for Large Private Companies and explain our compliance with the principles on **page 95**.

The Company has robust risk management and internal control processes, 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, anti-fraud, anti-bribery, whistleblowing and of the internal audit function, and making appropriate recommendations on policy and actions to the Board.

The Company was proud to be named the world's 'most ethical' water company for the thirteenth consecutive year in the 'World's Most Ethical Company' list, judged by Ethisphere. As one of only two UK companies, and the only water and sewerage company 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 ethics 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 76 to 78**.

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 held positions on the Board since April 2021, bringing a wide range of relevant expertise and experience, and for consistency with good corporate governance practice regarding 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 and has a strong accountancy and financial background; 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.

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 2024.

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.

Stretching targets

Our ambition to be the national leading water company guides decision making and actions across all aspects of NWL. Every year the Executive and Board undertake a rigourous process to assess the targets we set, informed by our customers and stakeholders and then consciously set in line with our vision and purpose to be leading in the context of the wider industry performance. This means that we set our targets in line with establishing and maintaining a leading position in the market. This is a practice that we are proud of.

In the case of C-MeX and D-MeX, we have looked outside of the water industries to understand what leading practice looks like and this underpins our setting a target of being in the Top 2 for C-MeX and D-MeX, which furthers our vision of becoming the national leader in the provision of sustainable water and waste water.

In line with best practice and updated regulatory guidance for 2023/24, which encourages companies to provide clarity on why each target was set and how it can be considered stretching, we have introduced a metric-by-metric summary within our balanced scorecard, which can be viewed on **page 25**.

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 25** (with a dark blue header block) shows our performance against our customer and environmental targets. We set these targets to be stretching and show in the table the basis of the target (see key below).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.

We are pleased that we have shown improvement, or held performance stable, on more than half of these stretching targets, including achieving 2nd place in the industry for D-MeX, delivering all of our sewer flooding targets and having no serious category 1 or 2 pollutions for the second successive year. 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.

Stretching targets key:		
IL	Industry Leading	Top performing water company in England and Wales
UQ	Upper Quartile	Performance in the best 25% of water companies in England and Wales
AA	Above Average	Performance in the best 50% of water companies in England and Wales.
PC	Performance Commitment	Performance target set in our PR19 regulatory price determination from Ofwat.
PC+	Harder than Performance Commitment	More stretching than our Performance Commitment.
TP	Transformation Plan	Performance improvement plan agreed with Defra

Actual performance against the KPI targets

Scorecard Measure	Units	2022/23 performance	2023/24 target	Stretching target	2023/24 performance	2023/24 achieved	2024/25 target
Customer							
C-MeX: Customer experience	position	3rd (1st overall)	Top 2	UQ	4th (3rd overall)		top 2
C-MeX: Customer service	position	3rd (1st overall)	Top 2	UQ	4th (3rd overall)		top 2
D-MeX: Developer services measure of experience	position	6th	Top 2 WASC	UQ	2nd		top 2 WASC
Interruptions to supply > 3 hours	mm:ss	08:17	<=04:53	UQ/PC+	05:32		<=04:53
Repeat sewer flooding incidents	number	23	<=27	PC+	24		<=27
Internal sewer flooding incidents	number	158	<=162	UQ/PC+	159		<=161
Compliance Risk Index (CRI)	score	7.62	<=3	AA/TP	3.45		<=3
Environment							
Leakage (NW)	Ml/d	119.2	<=118.0	AA/PC+	120.0		<=115.0
Leakage (ESW)	Ml/d	56.0	<=59.0	IL/PC+	50.8		<=54.0
Discharge permit compliance	%	98.52	100	IL/PC	98.54		100
Pollution events (Category 1&2)	number	0	0	IL	0		<=1
Greenhouse gas emissions	ktCO2e	23.44	<=22.18	PC+	19.32		<=20.17

Scorecard Measure	Units	2022/23 performance	2023/24 target	Stretching target	2023/24 performance	2023/24 achieved	2024/25 target
Competitiveness							
Gearing: net debt to Regulatory Capital Value (RCV)	%	68.3	<=77.5	N/A	70.0		<=77.5
Regulated gearing: net debt to RCV	%	68.3	<=70	N/A	70.2		<=70
Interest cover	times	3.2	2.4	N/A	2.9		2.4
People							
Employee engagement – trust index	%	70	>=70	N/A	77		>=72
Lost time accidents	number	14	<=14	N/A	15		<=14
Communities							
Trust – Ethisphere	awarded / not awarded	awarded	award	N/A	awarded		award

Customer

Unrivalled Customer Experience

C-MeX is the industry-wide measure that provides a holistic comparison of companies' customer satisfaction and experience performance. Our ambition is to be in the top two companies for C-MeX and we were disappointed to finish in third place this year, after achieving our ambition in the previous two years, but remain committed to providing unrivalled experiences for our customers and to being industry-leading. We continue to score highly in this area in CCWater's '**Water Matters**' report, with NWL being placed first for overall experience and overall satisfaction.

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. We need our performance and our customer service to be consistent and to be consistently the best it can be.

To improve customer satisfaction our focus has been on improving customers' experiences when they do get in touch. We continue to focus 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. 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. This allows our customers to clearly understand what is happening and to feel informed.

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, messaging and WhatsApp.

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 water and sewerage companies (WASCs) for D-MeX and we were delighted to achieve this, finishing in 2nd place.

We have implemented a new approach to delivering new service connections and now have a dedicated field resource. This has allowed us to ensure planned jobs are not moved or cancelled due to other work priorities with connections being completed within service level agreements resulting in higher satisfaction scores. We continue to invest in our corporate systems and this year we have introduced a jeopardy management tool which provides visibility of the end to end customer journeys, ensuring that service levels are achieved. Customers can now apply and receive their quotation online and further system developments are planned for 2024/25.

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 with them, we seek our customers' views to make sure we provide services in the way that they want us to. We also ask them about the channels we use and how they want to engage with us. As we've been developing our updated Unrivalled Customer Experience strategy we've enshrined this philosophy in our six customer priorities which have been directly informed by customer research and feedback and reflect the things our customers tell us matter most to them.

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. Since 2020 we have been engaging with customers on developing our PR24 Business Plan to ensure that it reflects what our customers have and told us is important to them. Drinking water quality is consistently rated amongst our customers' highest priorities and it is evident that there is increasing backing for environmental enhancements. The balance between promoting sustainability and managing customer bills is a delicate one and ensuring affordability and providing financial assistance are key priorities for us.

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 rising bills, has made this challenge much more difficult.

We are seeing an increase in customers reaching out for financial support through payment arrangements and lower bills. During 2023/24, the number of customers benefitting from either a reduced or capped bill tariff increased by 25% to over 131,000. This has resulted from a number of proactive steps we have taken.

We expanded the eligibility criteria for our low-income tariff by increasing the income cap by over 40%. Also, to reduce customer effort when applying for support, we have developed a unique income verification tool which assesses income at a household level in one transaction, providing confidence that the discounts are being given to those most in need and providing customers with an instant decision of eligibility. Our data sharing arrangement with the DWP has continued to provide the largest opportunity to provide reduced bills for customers and we have successfully set up data sharing agreements with six councils to share customer data using the Digital Economy Act.

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

Looking ahead, we are exploring innovative tariffs that could help customers save money, such as reducing standing charges to allow customers to reduce their bills where they use less water. Our customer subsidy is one of the lowest in the industry, which makes funding our support arrangements challenging. We have customer support to increase the contribution from April 2024, which will provide opportunities to expand the schemes and support more customers in the future.

We remain committed to eradicating water poverty and we are disappointed that a national social tariff is no longer supported by policy makers. We believe this is a missed opportunity to offer consistent support for bill payers across England & Wales, making it harder for customers and their representatives to understand and access the help available in different regions. In our PR24 Business Plan we have committed to expanding our support for all customers with affordability challenges from c.£40m in the current period to c.£170m. This will include introducing a new c.£20m shareholder funded hardship scheme to help those that need it most.

During the year, we increased the number of customers on our Priority Services Register by over 35,000 households. This was achieved through several initiatives including an expansion of data sharing with energy companies, a partnership approach with councils and housing associations to register households where they know the occupiers are vulnerable, awareness campaigns and additional training for our front line teams to help them to identify customers who require tailored services.

This year the BS 19477: Inclusive Service Verification has been replaced with an enhanced Kitemark standard. The new standard is internationally recognised ISO 22458 and continues to assess whether inclusive services are fully accessible to all customers and that companies have the right business processes in place to support all customers. This is the fourth year that we have audited our approach to vulnerability to ensure our services are inclusive for all.

Case study

More than just a water company - helping those who need it most

Strategic data sharing with the Department for Work and Pensions (DWP)

We have been working in partnership with DWP since 2021, under a robust data-sharing agreement, to improve access to reduced charges for eligible customers. This initiative enables us to identify and support customers eligible for our Low Income Pensioner Discount. To validate eligibility, we need essential customer information such as full names and dates of birth. However, this information is often missing for those who previously paid their water charges through local authorities.

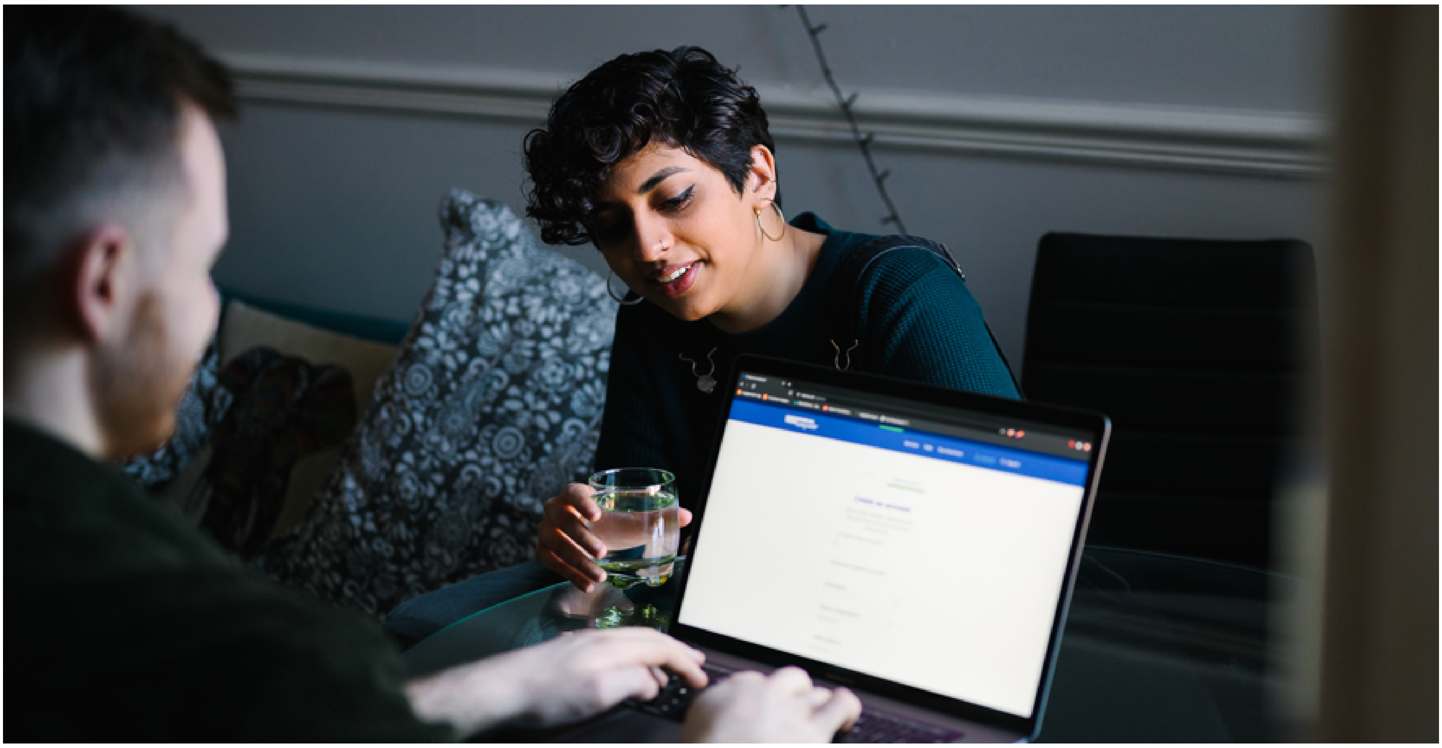
To address this gap and make sure no eligible customer is overlooked, we have proactively forged data-sharing agreements with local councils. These agreements permit councils to provide us with detailed information about their residents of pensionable age. We have successfully implemented this collaboration with several key partners, including Gentoo Housing Association, Believe Housing, Karbon Homes, Barking and Dagenham, and North Tyneside Council.

As a direct result of these strategic alliances, we have integrated more than 28,000 additional customers into our Low Income Pensioner Discount, successfully using data for social good.

Streamlining low-income tariff applications

We have developed an income verification tool to streamline the application process for our Low-Income Tariff. Since its expansion in February 2024, we've encouraged customers to use this service which is hosted on their online accounts, eliminating the need to send in proof of income. This initiative brings benefits for both customers and the business, providing instant decisions on eligibility and increasing registrations, and reducing manual effort.

Since February 2024, we've processed 1,985 applications using the TransUnion income check, automatically accepting 799. For cases where income verification fails, we investigate further and our analysis allows us to refine the process and communication which helps to reduce the number of applications being rejected. We are committed to being efficient and using customer-centric innovation in simplifying tariff applications.



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.

Although we improved our performance on interruptions to supply compared to the previous two years, we were disappointed to miss our stretching target in the year. This was significantly influenced by a failure in a strategic main in Suffolk in January 2024 which impacted c.8,000 properties adding over a minute to the overall performance. Prior to this incident, our performance on interruptions was well ahead of our target.

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. Our deployment of mobile storage units (MOWBIs), which can provide a temporary supply to an individual property, is going well and making a real difference to our customers.

Longer term our performance against this metric remains susceptible to external factors in particular weather events such as storms or flooding which are expected to increase in frequency due to climate change and which can disrupt the operation of our assets, particularly if they affect power supplies. Our PR24 Business Plan will set out robust proposals to address this, however delivery of these proposals will be dependent on the provision of associated funding.

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.

We always provide a reliable supply of water.

As a result, our PCC in 2023/24 of 152.5 litres per person per day was higher than the base, though lower than the previous year.

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 are continuing to carry out research and data analysis as well as contributing to collaborative research by Artesia and Frontier Economics. The research confirms that a higher propensity to work from home has persisted since Covid-19 restrictions ended and that customers are using more water as a result.

Evidence also suggests the coincidence of hot-dry weather with other shocks has amplified the PCC effects of extreme weather events, whose increasing frequency and severity are being exacerbated by climate change.

We are continuing to take action to reduce PCC through water efficiency interventions. We delivered a strong and comprehensive programme of water efficiency activities in the year, including upscaling our 'leaky loo' and home retrofit programmes, a fivefold increase in online digital water efficiency engagements through our water saving website, including our Water and Energy Saving Calculator, and leading the Water Literacy Programme to raise awareness of the value of water. We are also continuing to engage schools to increase the use of online resources for primary school teachers on The Ripple Effect, an innovative, interactive website that explains the principals of the water cycle and water use in age-appropriate language and delivery.

There is a clear link between our smart metering programme and the impact on PCC. We have integrated water efficiency as a core customer journey in our smart metering programme. This is allowing us to trial various water saving interventions, across different customer groups, at different stages of the customer journey. Smart meter data will allow us to better understand the impact of these interventions and create customer profiles, which will allow us to create tailored offerings to get the maximum customer uptake in future. We're committed to rolling out smart water meters for our customers with the overall goal that all our meters will be fully smart by 2035.

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 2023 of 3.45 represented a significant improvement compared to the previous year, but this was still higher than our target. We are disappointed to not hit our high standards in this area as we are committed to achieving industry-leading performance and are delivering our long-term plans to achieve this. We've accelerated funding in our base capital programme as part of a transformation plan with the DWI to deliver future improvements.

We are continuing to prioritise our efforts around water treatment, where CRI risk is highest, and areas of focus include filter media refurbishment, carbon regeneration, and improving on-line monitoring capability. In our networks, we are continuing with the enhanced service reservoir inspection and repair programme, using technologies such as Remote Operating Vehicles (ROVs) to support the inspection process. We are also continuing with smart network innovation to allow real time operational decisions to be made on the quality of water being supplied through our networks and so improve the customer experience.

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 2023. 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. We are also continuing to proactively engage with customers where planned work is being undertaken which could impact on these factors.

Our Water Quality Inspector project in the Tees system is progressing well. Its aim is to use online water quality monitors in both the strategic and local distribution networks to identify changes in water quality parameters, providing insight to support investigations into water quality changes which may influence the taste and smell of the water, as well as its appearance. The project also incorporates leakage data to understand synergies with water quality and includes customer behavioural research to understand how the future customer wants to interact with water quality information.

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. For the first time we have achieved our PC on all three measures of sewer flooding, internal, external and repeat, and achieved our stretching internal targets. This level of performance has been delivered despite this year being much wetter than previous years, with annual rainfall up by c.50% compared to the previous year. We have also seen significantly more named storms impacting our region when compared to other years and as a result we have experienced more heavy periods of severe rainfall compared to last year. We have reduced the number of internal sewer flooding incidents we report by more than 65% since 2019/20.

This success has resulted from the continuing maturity of our sewer flooding tactical plan initiated in 2019. Key areas which are driving our performance include the Bin the Wipe campaign where we have now directly reached over 235,000 households with our operational activities and contacted a further 600,000 with targeted letters in hotspot locations. We have boosted our resources in our dedicated Fats, Oils and Grease team who work closely with both commercial and domestic customers to advise best practice for managing this.

Our sewerage service deals with sewage and heavy rainfall effectively.

We also introduced a new activity to our plan last year where we now conduct CCTV for all blockages that occur on the network. This helps us to investigate and rectify any defects which may have led to future blockages or flooding from our network effectively and efficiently. The number of sewer blockages and sewer collapses both reduced this year.

Looking ahead, the modelling work we used to support our DWMP has helped us significantly reduce the percentage of properties we identify as being at risk of flooding. We also have plans for significant investment to improve the capacity of our network and will see wider benefits from our Storm Overflow Reduction Plan, which will improve the resilience of our network and further reduce flood risk. Our Long Term Delivery Strategy outlines our commitment to further reduce flood risk by 60% by 2050.

Reliable and resilient services

Our business is inherently long-term with assets we expect to operate for more than 100 years. We have an enduring presence in the communities we serve and provide services to generations of our customers. As part of our PR24 Business Planning process we produced our **Long-term Strategy for 2025-2050**, which built on existing long term planning frameworks for Water Resource Management Plans and Drainage and Wastewater Management Plans, as well as aligning to our Environment Strategy.

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 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 final DWMP in May 2023. The plan identifies how we will extend, improve, and maintain a robust and resilient drainage and wastewater system considering the pressures of climate change, population growth and growing customer expectations. Throughout the production of the plan, we engaged with stakeholders and this engagement continues as stakeholders are using the DWMP to co-ordinate and plan future work. More collaborative opportunities have been identified and it is intended that these will be followed up to allow more multiple benefit solutions to be implemented.

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

Our DWMP sits within the wider context of our Long-term Strategy and legal obligations, such as the Government's Storm Overflows Discharge Reduction Plan and 25 Year Environment Plan (25YEP). These considerations are reflected throughout our DWMP and more detail can be found in our Business Plan for 2025-2030 and our Environment Strategy to 2050.

Investment in our assets is a key part of delivering long term resilience and we delivered our largest capital programme since privatisation in 2023/24, with a particular focus on water and wastewater resilience programmes as well as our smart metering programme. However, this is just the start of what we foresee as a significant and sustained increase in investment over the coming years. We expect our AMP8 programme to more than double in size compared to AMP7 and we have accelerated activity to both establish our key supply chain partnerships and to make an early start on important programmes of work (see case study on **page 33**).

Case study
Accelerating water resilience investment in Essex & Suffolk

Four projects that will help maintain secure supplies of water to 1.8m people across Essex and Suffolk have been given a funding boost that will enable work to start sooner than planned. Accelerated funding will allow us to bring forward the start of vital works representing a combined £48m of investment in boosting the resilience of the water network in Essex and Suffolk.

Rather than starting work on the projects in 2025, the funding has allowed the progress to begin during 2024 with a potential for up to £22.7m to be spent by the end of March 2025.

The investment includes:
- £12.7m on a new water treatment works and borehole in Linford, Essex, which will add an extra seven million litres of capacity into the local water network;
- Detailed engineering designs for the £12.5m Suffolk Strategic Network and Storage Enhancement Schemes. This work will lead to the construction of two new strategic pipelines in Suffolk, which will allow surplus water to be transferred more easily around the county to the areas that need it;
- Detailed design of the £15.1m North Suffolk Winter Storage Reservoir, which would further add resilience to Suffolk's water supplies; and
- Detailed design of the £7.8m Lowestoft Reuse scheme.

The storage reservoir and reuse schemes have the potential to work alongside the Suffolk Strategic Network and Storage Enhancement Schemes to add further resilience to supplies for customers in Suffolk.

Kieran Ingram, our Water Director, said:

> "The challenges we face in Essex and Suffolk as a result of the dry weather and changing climate are recognised by this decision. These investments will support the tireless efforts of our team to keep the water flowing for all of our customers, all day, every day. This funding will allow us to do more, faster, and that's great for our customers and our region."

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.

Publication of the EA's annual Environmental Performance Assessment (EPA) for 2023 has been delayed because of the UK General Election. However, having assessed the individual performance metrics which contribute to the EPA and considered the methodology for calculating an overall score which has been used in previous years, we anticipate receiving 3 star rating when the assessment is published.

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.

We fully recognise the level of public concern with regards to the environmental impact of the sector as a whole, and the operation of storm overflows in particular. We remain committed to our ambition to have the best rivers and beaches in the country and have updated our Vision for Coasts and Rivers with the latest progress against the ambitious pledges we made in 2022 to care for our water environment.

The exceptionally high rainfall experienced in 2023 resulted in a greater number of storm overflow spills being reported across the industry than in the previous year. We remain committed to our pledge to reduce average spills to 20 per year by 2025 and have now installed spill monitors at 100% of our overflows, as we committed. We are progressing plans to make our wastewater network increasingly 'smart' with a UK first implementation of smart control systems. Our business plan for 2025-30 proposes almost £1bn of investment to reduce spills further.

There are 344 waterbodies in the North East, across which the EA has identified 1,800 'Reasons Not at Good' status (RNAGs). Of these RNAG's, 16.8% are linked to the water sector, with the remainder attributed to other causes. This confirms that, whilst we do have an important role to play, it is equally important for other sectors to also take credible actions to reduce their impact.

Treatment works compliance

This measure includes both wastewater and water treatment works discharges and our target is 100% compliance. We were disappointed to have three failing works, all wastewater, out of a total of 205 eligible treatment works, though in each case the impact was relatively minor and transient.

To improve our performance, we have implemented a tactical plan specifically for discharge compliance. This covers both water and wastewater treatment works and includes new root cause analysis, data interpretation as well as identifying any additional training or governance required. Targeted investments to support improvement in this measure are already included in our plan. We are making sure we carry out work at any sites with a history of any level of sample failures, to prevent a reoccurrence.

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 are committed to delivering against challenging new standards.

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. In December 2023, Ofwat notified NWL, along with two other companies, of its provisional findings. We responded to these findings and provided further relevant evidence for consideration. We have disclosed this as a contingent liability and further information is provided in note 24 on **page 170**.

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 for the second successive year 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 (PIRP). We constantly examine every aspect of pollution to target our efforts to effectively reduce pollution risk. We share our experiences and learn from others, such as through the industry Pollution Reduction Task Force and our innovation networks.

We have fully deployed an innovative smart network management technology across our wastewater service. 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. We are also working with a leading company to deliver the UK's first real-time decision support system for our largest wastewater system on Tyneside, involving installation of new devices and development of a digital twin. This increases our capability to detect issues, manage flows effectively 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 94% in 2023/24.

Bathing water compliance

Our stretching performance commitment for 2020-25 is to contribute towards all our NW region's bathing waters being classified as Good or Excellent. Our bathing waters continue to be amongst the cleanest in the country and we were again ranked second in this measure in 2023 for the percentage of Excellent and Good coastal bathing waters in comparison with water companies in England. For the 2023 bathing season, 32 out of 34 bathing waters achieved our target with 21 classed as Excellent and 11 as Good. The two bathing waters not achieving our target were Seaham Hall (Sufficient) and Cullercoats (Poor).

Seaham Hall deteriorated from 'Good' in 2022 to 'Sufficient' in 2023. We are working in partnership with the EA and local authority to investigate the reasons for the deterioration including additional sampling and monitoring. Initial results show significantly elevated bacteria levels in an unnamed drainage ditch adjacent to the sample point which is not from an NWL source. Improvements to our assets alone would not deliver 'Excellent' status without removing the non-NWL source.

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. A hydrogeological study to further understand the pathways of groundwater into the Cullercoats bathing water was completed in September 2023 and the outcome from this report is being used to determine the next steps. We remain committed to working with our partners to improve the seawater quality at Cullercoats for our customers, local businesses and recreational users.

Case study
Eyes to the skies

In a world-first for the utilities industry, we are exploring the use of drone technology to help improve the quality of the North East's rivers and coastal waters. In partnership with cloud data experts, Makutu, and Skyports Drone Services, we are aiming to carry out real-time water quality assessments at scale.

Our maiden test flight took place in January 2024 after months of ground-breaking research into how the uncrewed aerial vehicles (UAVs), or pilotless drones, will use sensors, AI and data analytics to carry out a huge water quality monitoring programme of key coastal and inland locations.

Affectionately named Project Kingfisher by the partner organisations, for the way the drones will hover and dip in and out of water, the project has explored how and what data the drones will collect, to help us respond quickly to any potential issues.

Currently, we can only survey water quality by sending our people to manually take water samples from sites, which can prove difficult when they're a long distance away, in very rural areas, or during bad weather. By using drones and clever technology, we expect to see improved access to hard-to-reach areas, a reduced carbon footprint, more data over a larger area with faster results.

The Kingfisher tests will involve launching the drone from key locations and it will automatically visit several pre-programmed water sampling sites. When it is at the sampling site, the drone will hover while a number of key water quality tests are performed, before moving onto its next sample site. Meanwhile, the data it has collected will be fed back for analysis in near real-time.

Once phase one is successfully completed, the second phase of the trial will begin which will see the demonstration of the service to scale - operating robotically beyond visual line of sight over a period of three months, without ground observers.

Richard Warneford, Wastewater Director, said:

> "There's a lot of hard work gone into understanding how UAV technology can be used to collect data efficiently, and these successful test flights have proven the validity of it as part of our huge water quality monitoring programme. We're proud to be making history with this project and we can't wait to begin rolling it out officially across the North East – it's just another step towards having the cleanest rivers and beaches in the country."

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.

Leakage

Reducing leakage remains a key focus, and our goal is to have the lowest levels of leakage in the country in our water-stressed ESW operating area. We were delighted that we reduced leakage year on year by 8.6% in ESW, meeting our regulatory PC for leakage reduction as calculated on a three year average basis. In our NW operating area we missed our regulatory PC by the narrowest margin in NW.

During the year we achieved some of the lowest levels of leakage ever recorded in each region. The weather was relatively benign which enabled us to drive down leakage levels throughout the summer and even with a couple of freeze/thaw events in the winter we were able to recover quickly without too much of an impact on the annual figures.

Some of our projects that have delivered improvements this year include a programme of pressure management optimisation where we have been trying to maximise the leakage benefit from our existing assets.

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

Our new centralised leakage strategy team has improved the prioritisation of District Meter Areas for survey, and also the most important leaks for repair, and we have continued to use AI sensor technology that makes our leakage detection surveys more efficient.

We have been working closely with Origin Tech for a number of years on their No-Dig repair technology. Originating from our Innovation Festival in 2021, No-Dig emerged as a groundbreaking solution to water pipe leaks. Unlike traditional methods, it requires no excavation, minimising disruption to customers and reducing carbon emissions. This is the first year that we have implemented this method for all communication pipe repairs where suitable. This is delivering quicker and less disruptive repairs and we are looking to develop the technology further in order to use on mains failures in future.

We are actively looking at new innovative leakage technology like hydrophones, digital listening sticks and pressure transient loggers to understand where they work best and the benefits they can deliver. This is continually influencing our strategy for the next year and beyond, to deliver our targets in the most efficient way.

Greenhouse gas emissions

Our ambitious goal is to achieve net zero for operational emissions (scope 1 and 2) 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 reduced our operational emissions to 19ktCO2e, compared to a baseline of 68.6 ktCO2e in 2019/20. More detail on these emissions is provided in the Directors' Report on **page 114**.

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 six of our operational sites to meet the majority of their energy demands;
- 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.

We are continuing to explore opportunities to reduce operational emissions further through additional installation of further solar generation and transition to a low emission fleet and through investment in electric vehicles. We also plan to deploy onshore wind at sites where it is suitable and sensitive to the environment and our communities.

But reducing operational emissions is only part of the challenge. We are also reducing our embedded carbon emissions, the emissions from the materials and construction activities of our projects and new investments. In our PR24 business plan, we have set ourselves a long-term target of reaching net zero for all emissions (scope 1, 2 and 3) by 2050.

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. We work to influence and to make shared decisions to improve the environment, 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.

Climate-related financial disclosures

(non-financial and sustainability information statement)

In accordance with the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, we have reported our Climate-Related Financial Disclosures (CFD). Our compliance with CFD is integrated into the Annual Report, ensuring our climate-related risks and opportunities are communicated throughout. To further enhance our reporting, a more detailed report will be included within our updated Emission Possible publication. This will set out additional information on our climate-related strategies, metrics and targets.

Climate change poses the single greatest threat to our natural environment and the sustainability of our company. Playing our part in mitigating and adapting to climate change is essential to us, helping to protect the environment and society today and in the future. Over the last few years, we have made progress towards improving our resilience to the impacts of climate change. Our recently published '**Restore and Regenerate: Our Environment Strategy to 2050**' sets out our commitment to help restore and regenerate our natural environment. The report highlights our environmental commitments alongside our environmental ambition:

> **"Together, we are restoring and regenerating our natural environment, creating a better place through our actions."**

The Environment Strategy provides further details on the delivery of the environmental aspects that were specified in our '**Shaping our future: Our Long-term strategy 2025-50**', which examines the long-term challenges we face and the investments we will need to meet them. This identified achieving Net Zero greenhouse gas emissions as one of our five key investment areas. Throughout these reports, we have identified areas of focus to ensure our organisation is resilient and can mitigate risks and embrace the opportunities of climate change.

Our CFD report provides a comprehensive analysis of our organisation's identified climate-related risks and opportunities. It aims to enhance transparency and enable stakeholders to make informed decisions regarding our sustainability strategies and financial performance.

The table on **page 40** indicates where specific information aligning with CFD requirements can be found within this report.

Location of CFD Requirements within this Annual Report

CFD Requirements	Location in this Annual Report
(A) a description of the governance arrangements of the company or LLP in relation to assessing and managing climate-related risks and opportunities.	The Risk & Compliance Sub-Committee has oversight of the scope and effectiveness of the Group's risk management systems, including climate-related matters. The Board is in the process of establishing a new ESG Board Committee to assume oversight of ESG matters, including climate-related risks and opportunities. Corporate Governance **page 76**.
(B) a description of how the company or LLP identifies, assesses, and manages climate-related risks and opportunities.	The Risk Management Framework sets out the process for identifying, analysing and evaluating risk across the business. Climate-related risks are included within this process. Emerging risks as those which are foreseeable, but not with sufficient clarity to be assessed within the corporate risk model. These are captured in an Emerging Risk Register and reviewed annually by a sub-group of the Board. Risk Report **page 64**.
(C) a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the overall risk management process in the company or LLP.	
D) a description of (i) the principal climate-related risks and opportunities arising in connection with the operations of the company or LLP, and (ii) the time period by reference to which those risks and opportunities are assessed.	The Risks and Opportunities, and a Scenario Analysis identifying the impacts, are set out in this CFD report. Effect of climate change is also identified as one of our Principal Risks and Uncertainties, set out in the Risk Report. Risk Report **page 64**
(E) a description of the actual and potential impact of the principal climate-related risks and opportunities on the business model and strategy of the company or LLP.	
(F) an analysis of the resilience of the business model and strategy of the company or LLP, taking into consideration of different climate-related scenarios.	The Viability Statement assesses the financial resilience of the business over an 11 year time horizon, including the impact of Principal Risks and Uncertainties. The Scenario Analysis in this CDF report assesses the risks and opportunities over different time horizons and Representative Cognitive Pathway scenarios. Viability Statement **page 117**.
G) a description of the targets used by the company or LLPs to manage climate-related risks and realise climate-related opportunities and of performance against those targets.	The Company set targets in respect of reducing greenhouse gas emission as part of its PR19 Business Plan, for a five year time horizon to 2024/25. These are reported in Energy and Carbon Reporting along with metrics to monitor the emissions intensity of our operations. We have set out longer term targets in our PR24 Business Plan and Long term Strategy, which are subject to the outcome of Ofwat's price determination. Energy and Carbon Reporting **page 114**.
(H) the KPIs used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.	Our short term environmental KPIs are reported in the Performance Review, including greenhouse gas emissions reduction. Longer term targets against climate-related risks and opportunities are described below, though they are currently qualitative in nature. Performance Review **page 24**.

Risks and Opportunities Assessment

We actively monitor, identify, and assess climate-related risks, such as extreme weather events, changes in precipitation patterns, and regulatory impacts related to water quality standards. These risks are integrated into our Risk Management Framework and Risk Registers. Each risk is assessed according to consequence categories, management controls and sources of assurance.

For the purpose of this CFD, risks and opportunities deemed to be the most significant in relation to climate change have been selected from our wider risk disclosure.

These selected risks and opportunities have been assessed against our business model and strategy, both in terms of the actual and potential impacts. The risks included in the assessment are aligned with those set out in our **Climate Adaptation Report** and **Climate Change Risk Assessment**. The Climate Change Risk Assessment is a five-year UK-wide assessment that assesses the risks for the United Kingdom from the current and predicted impacts of climate change.

The table below details the actual and potential impacts of each risk and opportunity and the targets/mitigation actions in place to optimise opportunities and adapt to risks.

Risk or Opportunity		Actual and Potential Impacts	Targets / Mitigation
Risk	Risk to our assets from river, surface, groundwater, and coastal flooding.	Possible damage to infrastructure or equipment, interrupt the delivery of our services, creating financial problems through costs of repairs and increased resilience measures.	• Develop a catchment approach to sustainable urban drainage. • Improve asset resilience to ensure they are climate ready. We aim for this to include a systems analysis of risk and understanding of the vulnerabilities across our asset base.
	Risks to our systems and networks from subsidence.	Possible infrastructure damage and disruption of our water supply. Leading to financial problems and diminished customer confidence in our reliability.	• Carry out a review of company design standards for different asset types. • Develop an evidence base of asset performance across different temperature profiles.
	Risk to our network from cascading failures.	Possible service disruption and reduction in water quality through widespread water outages and infrastructure damage.	• Improve our asset resilience to make sure they are climate ready. • Continue to align our approaches to modelling climate change across the business. • Continue research on interdependencies and the risk associated with supply chains.
	Risks of poor water quality and supply interruptions.	Possible remediation costs, legal liabilities and potential fines which will impact our long-term sustainability and undermine public trust.	• Build on existing critical asset assessments. • Continue our work on zonal strategic studies. • Continue developing new innovations to reduce the impact of climate change on our assets.

Risk or Opportunity		Actual and Potential Impacts	Targets / Mitigation
Risk	Risks to aquifers from sea levels and saltwater intrusion.	Threat to water quality and quantity that is being distributed. There will be the need for innovation and restoration of aquifers which pose a financial risk.	• Continue to assess the impact of sea level rise. • Continue to look at saline incursion for specific sources (e.g., Sunderland).
Risk	Reduced water availability, risking public water supplies.	Possible threat to our ability to meet public demand and business growth, potentially leading to shortages and disruptions. Long-term implications include strained resources and heighten operational cost.	• Implement key projects to improve our supply resilience. • Continue to deliver customer engagement campaigns with a focus on water savings. • Work with local economic development agencies to locate high water demand businesses in suitable locations.
Risk	Risk that we are unable to effectively treat and manage sludge (bioresources).	Threat to water quality through possible contamination from incorrect disposal. Risk to reputation from loss of trust and regulatory non-compliance.	• Tighter phosphorus consents at our sewage treatment works. • Provision of 90-day strategic cake storage and increased high solids dewatering which provide resilience in the supply chain. • Improve sludge to land supply chain resilience from high solids dewatering at Howdon and Bran Sands.
Opportunity	Engineered and nature-based solutions.	This presents an opportunity for us to leverage new approaches while improving our positive environmental impact.	• Restoring wetlands, planting trees and using landscaping and vegetation to manage flood risk. • Review our company-wide approach to using geospatial data effectively.
Opportunity	Sustainable finance instruments.	Enhanced access to capital for eco-friendly infrastructure can improve our operational efficiency while reducing our environmental impact.	• Develop our approach to using sustainable finance instruments such as green bonds to finance our business. • Reporting our climate risks in line with TCFD recommendations.

Scenario Analysis

The following scenario analysis explores the selected risks and opportunities and assesses them against the time horizons and Representative Concentration Pathway (RCP) scenarios. The RCPs were created to model and predict future climate and to make assumptions about the economic, social and physical changes to our environment that will influence climate change (**RCP Met Office**).

Our scenario analysis was carried out in 2023 to inform our PR24 Business Planning process and Long-term Strategy to 2050. The short term period 2025-2030 aligns to our AMP8 investment plan. The medium term period to 2050 aligns with our planning horizons for WRMP and DWMP and informs our investment needs over this period. At present, we have not yet extended our assessment of risks and opportunities beyond the 2050 time horizon.

Time Horizons and Representative Concentration Pathways:

Short-Term	Medium-Term	Long-Term
2025-2030 PR24 price control period	**2030-2050** Long term Strategy	**2050-2100** RCP time horizon
RCP 2.6	**RCP 6**	**RCP 8.5**
Best Case Limit global warming to 1.6 degrees.	**Middle Ground** Scenario of warming at 2.8 degrees.	**Worst Case** Warming scenarios at 4.3 degrees.

Risks:

Low	A risk which sits in this area is considered as appropriate in relation to NWL's objectives and is the most desirable position.
Medium	Risks in this area are still key risks and may affect NWL's ability to meet its objectives, therefore, risk treatment should be considered.
High	A risk which sits in this area has an inappropriate risk exposure relative to NWL's objectives. This is undesirable and risk treatment options need to be considered.

Opportunities:

Low	An opportunity which sits in this area is considered as least likely to impact NWL and its operations. NWL is least likely to benefit from this.
Medium	Opportunities in this area are still key opportunities and may affect NWL's ability to meet its objectives and therefore opportunity enhancement should be considered.
High	An opportunity which sits in this area has a high potential to enhance the NWL's objectives. This is desirable and therefore NWL should grasp the opportunity.

Scenario analysis

Risk	2025-2030			2030-2050		
	RCP2.6	RCP6	RCP8.5	RCP2.6	RCP6	RCP8.5
Risk to our assets from river, surface, groundwater, and coastal flooding.	Medium	Medium	Medium	Medium	High	High
Risks to our systems and networks from subsidence.	Low	Low	Low	Medium	Medium	Medium
Risk to our network from cascading failures.	Medium	Medium	Medium	Medium	High	High
Risks of poor water quality of supply interruptions.	Low	Low	Low	Medium	High	High
Risks to aquifers from sea levels and saltwater intrusion.	Medium	Medium	Medium	Medium	High	High
Reduced water availability, risking public water supplies.	Medium	Medium	Medium	Medium	High	High
Risk that we are unable to effectively treat and manage sludge (bioresources).	Low	Low	Low	Medium	Medium	Medium
Opportunity						
Engineered and nature-based solutions.	High	High	High	High	High	High
Sustainable finance instruments.	Medium	Medium	Medium	High	High	High

Completing this scenario analysis against the RCPs across short and medium time horizons enables us to produce a business model in which we can understand and manage our climate-related risks and opportunities. Assessing against a short-term time horizon allows us to identify immediate risks and opportunities, which helps to inform strategic decisions and investment strategies. Over the medium term, this analysis enables us to prepare for future climate impacts. A forward-looking approach ensures that our business model is resilient and adaptable to anticipated risks and opportunities.

To deliver our long-term targets and address the challenges that we have in our operating regions we have identified four areas where new investment will be required. These areas are:

- Ensuring sustainable water supplies;
- Protecting the local environment;
- Delivering Net Zero; and
- Maintaining resilience.

These are reflected in our core plan to 2050, but we will also need to adapt to new information and change as it arises. We have identified a series of key trigger points where we expect new information to be available which will inform choices on future investment pathways.

Competitiveness

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

We are an innovative and efficient company.

Financial performance

A review of our financial performance and financing position is detailed in the Financial Performance and Structure section on **pages 124 to 215**.

AMP8 Investment – Living Water Enterprise

Following the submission of our PR24 Business Plan, we expect our AMP8 capital investment programme to be our largest ever, more than double the size of AMP7.

To successfully deliver this programme, we have created our Living Water Enterprise (LWE), a partnership with our supply chain which incorporates our largest ever package of framework agreements. The LWE marks a significant milestone in our journey towards transformative investment and sustainable development. With twelve strategic partners, LWE has expanded its network of collaborators, forming an industry-leading collaborative partnership that lies at the heart of our plan for transformational investment and change.

Embodying our commitment to local communities, the LWE is founded on the principles of economic sustainability and community engagement. By partnering with local businesses such as Esh-Stantec and Avove Limited, we not only stimulate regional economies but also foster a sense of ownership and pride within the communities we serve.

Environmental stewardship lies at the core of the LWE's mission. Through innovative approaches to infrastructure design and construction, including nature-based solutions championed by partners like Farrans Construction and Mott MacDonald Bentley, we aim to minimise our environmental impact whilst delivering resilient, future-proof solutions.

Central to the success of the LWE is a culture of efficiency and innovation. Leveraging the collective expertise of our partners, we are trialling new approaches to asset management and delivery that will consider the complete lifecycle of assets, ensuring that projects are completed on time and within budget.

Alongside this total expenditure approach, the partnership will challenge existing methods and investment choices, allowing for a greater focus on alternative options, including the potential to reduce carbon through nature-based solutions to water and wastewater treatment.

Leading in innovation

Innovation serves as the cornerstone of our operations throughout the entirety of our business, with 'innovative' standing as one of our fundamental values. Our primary aim is to deliver value for our customers by ensuring our operations are reliable and resilient now and into the future. To do this we are creating an innovative culture, empowering individuals at every level right across the whole business. This is essential to enable achievement of the ambitious objectives outlined in our business strategy and has propelled NWL to the forefront of innovation, garnering recognition within and beyond the water sector.

Innovation culture

Our innovative culture has matured with an increasing number of employees actively participating. We have established a robust system of 'hub leads' for each of our operational directorates, to facilitate communication of new ideas to relevant stakeholders and understand business needs. We have broadened the participation of employees in innovation initiatives and improved our pipeline processes. The expansion of our innovation ambassador group, to 155 members from 96 the previous year, has been pivotal in driving and reinforcing this cultural shift.

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 once again 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 through the NWG Innovation University, which offers bite-sized training in courses in innovation management, intellectual property, facilitation, design sprints, and networking.

Innovation Festival

The Innovation Festival returned for its seventh year, presented as a hybrid event combining in-person and virtual participation. The theme was Citizens and marked our most successful event yet, achieving our highest engagement levels from within the Company, across the water sector and beyond, while delivering high quality outputs. The Festival is a vital component of our innovation program, playing a key role in generating ideas, accelerating projects and establishing partners for external funding bids.

An essential aspect of the Festival's unique format is its ability to attract a diverse audience, a critical factor in facilitating effective design sprints. The event featured 40 activities, including 32 sprints and 3 data hacks, with 5 sprints conducted online to ensure inclusivity. With the participation of 65 sponsors, attendees from 41 sectors and over 650 organizations representing more than 33 countries, the Festival fosters extensive collaboration and networking opportunities.

In the process, we contributed over £2 million to the local economy, showcasing our ability to attract talent and resources to our regions. In 2023, our strong presence on key social media platforms facilitated the growth of a robust innovation community with a social reach exceeding 3 million. Several potentially high-impact ideas generated from the Festival are progressing well, including the Water Cookbook initiative to reduce design costs, the Power Arrangers sprint to optimise power usage across operations and four Ofwat innovation bids, underscoring the event's significant convening power.

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 via our Invest Quest competition. The innovation pipeline has 81 ideas being considered across the business.

During the year, we progressed transformational ideas such as the Tipping Point asset health tool that aims to extend the life of concrete assets, the Water Cookbook that aims to reduce the cost of civil design projects by 3% and the Smart Sewer project to optimise the use of storm overflows. In addition, we are enabling the scale up of delivered innovation projects including No Dig pipe fix technology, National Underground Asset Register and Pressure Vessel which reduces interruptions to supply.

These are a few examples of how innovation at NWL is really making a difference to our customers, now and for a more resilient future.

Innovation Fund

NWL has fully engaged with Ofwat's Innovation Competitions and has built up significant internal capability and have submitted the highest number of bids into this competition. This is also driving higher levels of collaboration across the water sector and beyond as we seek out new and interesting partnerships for future rounds. During 2023/24 there has been another round of the Ofwat Innovation Fund, Breakthrough 4, and we have been active in both the Catalyst and Transform rounds. We were successful in four of our six bids:

- **River Deep Mountain AI** - to develop open-source, scalable, digital models, using machine learning, to unlock new insights into the complex factors impacting waterbodies and inform effective action to tackle pollution.
- **Support4All phase 2** - a national, secure, cross-sector platform sharing Priority Services Register and other vulnerability data between water, energy, and telecoms organisations, supporting a 'tell-us-once' approach.
- **METREAU** - will ready Microbial Electrolysis Cells for scaled use in wastewater utilities to support against capacity pressures, reduce energy needs and carbon footprint and recover resources of economic value.
- **Pipebot patrol** - to develop an autonomous sewer robot that lives in the sewer, constantly inspecting and raising alerts to the precise location of blockages as they are beginning to form, allowing maintenance teams to react before sewer flooding occurs.

Previously in the funding programme we have secured funding for 12 projects which are progressing. The Organics Green Ammonia project, which turns ammonia into green hydrogen fuel, has been successfully completed and we are now looking to see how we can scale this idea. 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 has secured funding to scale the use of this platform.

In total, we have now been awarded funding of £29m from the Innovation Fund in respect of 16 projects.

Case study

Green energy expansion

A high-tech test facility that uses heat to capture ammonia from sewage, ready to turn into green fuels, is now up and running in the North East. The idea to develop an ammonia recovery plant won a £225,000 funding bid from the Ofwat Innovation Fund in 2021.

The project, in partnership with environmental technology company, Organics Group, will see thermal energy strip and recover the ammonia from wastewater, the first time in the world that a water company has ever recovered ammonia using a thermal technique in this way. The recovered ammonia product can then be used to generate fertiliser products and green fuels that may be used in the emerging hydrogen economy.

We have taken delivery of a purpose-built advanced ammonia stripper and recovery system, a small-scale treatment plant, which is being trialled at our existing Howdon Sewage Treatment Works in North Tyneside. A testing programme is now in full swing, with the facility already recovering 95% of a high strength ammonia product.

Ammonia is present in wastewater through the natural breakdown of proteins and is a building-block used widely in the production of valuable chemicals, such as pharmaceuticals, fertiliser products and green fuels.

Removing ammonia will also have a number of benefits for our wastewater treatment process, making it more efficient by reducing overall energy demand, reducing greenhouse gas emissions and ultimately helping to keep customer bills as low as possible. By minimising emissions from the biological treatment process, it will also help to accelerate our ambitious net zero goals.

Angela MacOscar, Head of Innovation, said:

> “To be the first, not just in the water industry, but in the world, to use this bespoke technology is incredible and testament to our commitment to improve the environment and drive us even further on the road towards net zero.
>
> “As a business we have been supporting a circular economy for many years by generating renewable energy, recycling sludge to land and maintaining a healthy water cycle. This is the next stage of our continual journey to maximise our resource efficiency.”

People

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 2023, we participated in the Great Place to Work survey inviting all colleagues to share their views. 88% of colleagues provided their feedback, with 81% agreeing that this is a great place to work. Feedback increased across all areas of colleague experience and our Trust Index score improved from 70% to 77%, with the organisation being ranked in the top 40 super large UK employers.

Recognising colleagues was an area of focus in 2023, with the launch of a Tap in To Recognition Portal creating an area colleagues could recognise one another and this recognition being celebrated at our 10th annual colleague awards showcasing where colleagues have lived the Vision and Values.

We continue to share information and opportunities through a range of communication channels including our weekly H2info e-bulletin, intranet (The Source) and Viva Engage and in 2023 have introduced Your Voice Forums to provide an additional channel for two way communication. During 2023, 60 interactive Employee Roadshows were hosted by our CEO, Heidi Mottram, and our Executive Leadership team to give colleagues the opportunity to hear key messages, celebrate success and milestones and, importantly, share their ideas, ask questions and raise any concerns directly. Quarterly Team Talks engage all colleagues in key business topics, bringing teams together to discuss performance and key areas of focus with the support of a pack of resources including videos and interactive activities to bring the messages to life.

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

We are seen as a great place to work.

Our Respect at Work Policy seeks to ensure that all our current employees and potential employees are treated with respect, in 2023 this included the development of our ‘Safe to Say’ work in partnership with Colleague Networks to support honest and open dialogue and a review of feedback channels.

Early Careers Strategy

To reflect our communities and bring in new perspectives to NWL, we believe investing in early career’s is our answer to a secured future. Whether they join us through an apprenticeship, graduate scheme, undergraduate placements, or work experience, they will have a wide range of opportunities to reach their potential while making meaningful contributions to sustainability, resilience, equity, and customer support.

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 25 apprentice opportunities with a 99% retention rate post-apprenticeship;
- recruited 16 undergraduate students to work with us during their placement year in a variety of roles across the business;
- engaged with over 400 students as part of our 2023 Innovation Festival, through design sprints, daily hacks and STEM (Science, Technology, Engineering and Mathematics) activities; and
- provided work experience opportunities to 35 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 in our customer service, HR and Operational teams for students with neurodiversity requirements. We will continue running this programme in 2025.

People development

By investing in the development of leaders and managers, we're not only enhancing their leadership practices but also contributing to the creation of high-performing teams. This focus on continuous learning and improvement is key to fostering a positive work environment and achieving our organisational success.

We offer a variety of resources such as a management induction programme, leadership masterclass series and management coaching that demonstrates a commitment to ensuring that leaders have the tools they need to succeed. The recognition that everyone's needs are different is crucial, and our blended development offer reflects this understanding. This personalised approach not only supports individual growth but also contributes to building a culture where everyone feels valued and supported in their professional development journey.

Our Aspiring Managers Programme is a structured development journey for colleagues who are considering delving into their first people management role. It's a six month programme, that develops a broad range of knowledge, skills and experience expected of people managers, with real life opportunities to put into practice the skills covered in the sessions. Feedback has told us that this programme has helped individual confidence in personal career progression.

Through our intranet, we provide a Learning Hub to support their development needs and help them grow their career with us. During the year over 500 colleagues attended a masterclass to develop their skills further in areas such as complex problem solving, coaching and embracing change.

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

Case study
Building future Graduates scheme

As we prepare for a period of unprecedented growth and investment, the launch of our new graduate programme signalled our commitment to cultivating talent and driving sustainable development. With exciting new positions available within the Assets Directorate, the programme offers graduates a unique opportunity to kick-start their careers and contribute to meaningful projects that impact millions of lives.

Designed to provide a comprehensive learning experience, the programme offers structured training and mentorship from seasoned professionals within our diverse teams. Graduates will have the opportunity to work on a wide range of projects, gaining exposure to various aspects of asset management and infrastructure development.

Monisha Gower, our Assets Director, emphasised the importance of the graduate programme in shaping the company's future workforce.

> “This programme is not just about recruiting talent,” she explains. “It's about investing in the future leaders of our industry and empowering them to drive positive change. By providing graduates with the skills and knowledge they need to succeed, we're building a more resilient, sustainable future for our communities.”

More than 200 individuals applied for the programme, with 87 candidates being invited to attend assessment centres across our northern and southern operating areas. The diversity of applicants was pleasing, with 72% being female and people coming from a multitude of disciplines, from environmental science to civil engineering to biomedical science.

Originally, eight positions were available in the scheme, however, we expanded this to 11 roles reflecting the talent available. Additionally, we unearthed a pool of talent whose skills and qualities align with other areas of the business and we are exploring the potential to link those candidates with our wider workforce.

Diversity and Equal Opportunities

Our TIDE strategy was launched in 2021 and continues to be a key focus for us year on 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:

Gender Diversity and Pay Gap

We are committed to the principle of equality of opportunity and equal treatment for all our employees. We published our latest gender pay gap figures in our **Gender Pay Report** in April 2024, which is available on our websites.

		Target 2025	2021/22	2022/23	2023/24
Inclusion	Gender	>35% of colleagues are female	32%	33%	33%
	Ethnicity*	4.3% of colleagues are non-white	1.9%	2.3%	3.0%
	Disability*	>6% of colleagues with a reported disability	4.5%	6.7%	8.8%
Equity	Pay fairness	Gender Pay Gap <7%;	11.0%	10.5%	11.7%

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

Since launching TIDE, and by monitoring our recruitment and selection practices to 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.

We have built further links with communities and employment groups to support the attraction of our underrepresented groups to join us here in the organisation, with a key focus to harness closer relationships in our ESW operating area.

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 Equal Treatment Policy. We seek to ensure that people are recruited, selected, employed, trained and promoted on the basis of their ability for the job. 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.

While we have made significant strides in advancing gender equality, we recognise that there is still work to be done. Our Gender Pay Report serves as a roadmap for our ongoing efforts to identify and address any systemic barriers to gender equality and to ensure that all employees are fairly compensated for their contributions, regardless of gender. We encourage open dialogue and collaboration across all levels of the Company as we work together to build a more equitable and inclusive workplace.

Name	Female	Male
Board	3	7
ELT	4	6
Full Company	1,121	2,299

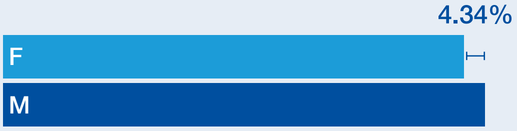
We continue to focus on growing our talent across all areas of the business and have seen positive impacts of our female focussed recruitment advertising through imagery and social media targeted recruitment advertising. Within Early Careers, 60% of our graduates are female working in our Asset, Water, Regulation and Assurance and People teams.

Our continual review of our gender diversity in the business has led to new development programmes being developed to enable our colleagues of all genders that aspire to be a manager or leader in the business to grow their skills and knowledge to enable them to be confident and successful in applying for roles in the future. Our Aspiring Managers course has had over 35% of attendees being female and we've seen them go on to be successful in promotions at all levels in 2023.

We recognise our gender pay gap is still there and still needs to be tackled. For 2023 we have seen an increase in the median pay gap compared to the previous year, from 10.54% to 11.69%.

We also saw a 6.5% increase to the median female salaries compared to a 7.9% increase to male median salaries.

Mean Pay Gap

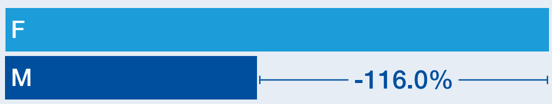


Median Pay Gap

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. 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.

Mean Bonus Gap



Median Bonus Gap

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.

There has been a slight increase in the number of incidents reported in 2023 compared to 2022, including Lost Time Accidents (LTAs) and incidents falling within the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR), however there was a significant reduction in actual days lost compared to the previous year. The performance is comparable with the long term target of reducing lost time accidents and reportable incidents by 20% compared to historical performance.

The number of High Potential incidents (HiPo's) reduced by 30% compared to 2022. Whilst this is encouraging, the business continues to learn lessons from each HiPo, accident or near miss and in line with this approach a number of trends were identified during the year involving incidents relating to the handling of chemicals, movement of large vehicles and toxic gas controls. This has resulted in mitigation measures being implemented into our 2024 Safety Plan, underlining our transparent learning culture approach.

The learnings from each LTA and each HiPo 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 Executive Leadership Team (ELT) on a monthly basis. Health and safety is the first item on the agenda at each Board meeting.

We continue to see considerable employee engagement with our established safety awareness tools within the business and our people voluntarily carried out c.120,000 '60 second checks' and 14,000 Covid 60 second checks, held 9,000 safety conversations and 4,100 hazards were spotted and reported within the business. All these measures again demonstrated an increasing trend compared to the previous year. Our managers and leaders conducted 2,900 safety visits and 3,900 contractor safety audits demonstrating a commitment to visible safety leadership.

Our workplaces are healthy and safe.

Our focus is on managing risk on high risk activities through a point of work specific risk assessment tool. Employees completed over 10,000 high hazard risk assessments whilst 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 conducted 183 assurance visits on the business high hazard activities, to ensure effective controls are in place. In addition, our ELT members conducted 128 safety leadership visits in 2023.

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 offering, 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

We serve specific regions in the North East and South East of England and are rooted in these communities. The majority of our employees and their families live alongside and engage with our customers every single day. Our pipes run up and down almost every street in our operating areas. We provide essential services to our communities and in doing so we also play a big part in the success of our communities, helping to build a strong economy, create jobs and a strong supply chain, and working in partnership to achieve shared objectives.

Our Community Investment Strategy focuses on three areas that are at the heart of who we are and central to our Purpose. We deliver community investment activity in these areas through financial contributions, volunteering (including our Just an Hour scheme through which 35% of our employees supported 226 good causes), education impact, and playing a leadership role.

As we have done for many years we reinvested at least 1% of our profits to our communities, through activities such as our employee volunteering programme, Just an Hour, employee donation programme, Cheque it Out, and our funding programmes Branch Out, Bluespaces and our Community Foundations.

Our key areas of focus are:

- **Ending water poverty**
  Supporting customers with their bills is an important part of our customer teams work. As part of that we held a series of information events with Karbon Homes, a social housing provider in the North East of England. Our team of Customer Heroes delivered customer engagement activities and attended to answer queries and provide support to the local community, offering bills advice sharing information on how customers can use water wisely. A total of 25 information events throughout Chester le Street, Consett, Stanley and mid-Durham were held offering advice on health, finance and wellbeing. These events give us the opportunity to support customers that may not be aware of the support available to them.
- **Water for health**
  It's important to drink water to stay healthy and hydrated and we actively encourage customers to 'choose tap'. Our Powered By Water school sessions delivered our key hydration messages to over 10,000 children. Our first WaterAid Ball since 2019 raised £40,000; the event was held to celebrate reaching our £1 million target to fund projects in Madagascar. We are now developing an exciting new partnership with organisations in Zambia.
- **Protecting the water environment**
  From minimising the amount of water that's wasted to supporting excellent bathing waters, we work hard to restore and regenerate our natural environment. This year our environmental funding programme, Branch Out and Bluespaces, provided support to 25 organisations.

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 extended our educational activity adding a wastewater section to our education programme aimed at children, The Ripple Effect, where we engage with 11 to 14 year olds to encourage everyone to make small changes to protect our network, our customers, and our environment. To support our environmental education work, we had two successful community partnerships in 2023 – the Shaun the Sheep trail supporting St Oswald's Hospice in Newcastle, and 'Herd in the City' supporting Havens Hospices in Southend. Both gave us the opportunity to promote our messages about sustainable water use, particularly to school students.

Local procurement

After making strong and sustained progress since 2017/18 we are delighted to have surpassed this target to spend 60p in every £1 locally again, with local spending in 2023 at 61.7%. As one the largest businesses in the regions where we operate, and in keeping with our commitment to our communities, we believe it is important to maximise the positive impact of our spending.

In 2022/23 we updated our **Responsible Procurement Strategy**, through which we have developed the 'Impact Initiative 7'. Throughout the year we have continued to implement and develop our strategy. Actions over the past year included:

- Targeting local suppliers at 'Meet the Buyer' events such as the Chamber of Commerce Expo and Business Durham, to enable local suppliers to gain insights and access to opportunities.
- 'Lunch 'n' Learn' sessions on our responsible procurement initiatives including local spend for our supply chain. In the session we shared our approach for measuring 60p in £1 and insights from the local spend impact analysis.

- Sharing our 'Procurement in the Community' educational pack designed for local small and medium entities to inform them about the procurement process and wider utility procurement.
- Maintaining a strong network with other North East organisations through the County Durham Pound group. This group has similar goals and challenges regarding local spend and social value. Being part of the collective will assist us with spend analysis to show leakage outside of the local area and where new opportunities lie.

It is also important to us that the money we spend has a 'ripple effect' and we can leverage the greatest possible benefit for our communities through our work with our supply partners. Our research found that our suppliers re-spent £140m across our operating area, including £50m spent on employing local people creating over 2,000 jobs and 200 apprenticeships supported by their contracts with us. They also contributed 65,000 hours of employee volunteering to the communities we work in.

British Water's annual UK Water Company Performance Survey asks contractors, consultants and suppliers to rate their clients' performance in 12 areas, including professionalism, contractual approach and communication. NWL has continued to score above the average on all areas and fall within the top two on every aspect.

Bluespaces

This year we have achieved 45km of water environment improvements through delivery of 12 partnership projects across our operating areas and we have a further 5km of projects in progress. In total through the first four years of AMP7 we have improved 125km of water environment for our local communities.

Our Bluespaces funding scheme, which provides the platform for developing and delivering partnership projects to support this, is working well with 40 projects already completed in total, and we have a further eight partnership projects approved in the pipeline for delivery next year.

Bluespaces funding has supported delivery of a multi-partner project to improve 2.2 km of water environment along the Angles Way as part of the larger 'River Access for All' scheme. The Angles Way project has enhanced access along and next to the river and improved habitats, working with landowners, the EA and volunteers from the local community.

In the North East, Bluespaces has funded a project at Crimdon Dene, near Hartlepool. The Dene is a designated local nature reserve and the project has improved accessibility and habitats. Public events have engaged the local community and visitors promoting it as an attractive option for local recreation alongside the coastal beaches.

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 are designed to must make a difference to locations in at least two of the following aspects: access, facilities and recreation; wildlife and biodiversity; and water quality.

This year we have also been developing our ambition for the future through our Business Plan for 2025-30, learning from our engagement with partners and stakeholders, and working with the Environment Agency to include non-statutory WINEP schemes to deliver the Bluespaces improvements and their associated wider environmental and recreational benefits.

Branch Out

Our Branch Out fund was set up in 2013 to support local community groups, organisations and individuals with projects to benefit the natural environment in our operating areas. The main aim of the fund is to reconnect habitats for the benefit of people and wildlife, to help manage or eradicate invasive non-native species, or landscape scale projects to create or restore priority habitats.

Since its launch it has invested more than £700,000, contributing towards other match-funding sources to secure a £16m million wider partnership investment. Last year, we supported 13 projects, including supporting River Waveney Trust's project to deliver physical river restoration across the catchment to restore habitats and provide natural flood management. In our Northumbrian region we supported North East Red Squirrels group and their project to protect and monitor the remaining red squirrel population across the North East using dedicated volunteers.

Case study
The ripple effect

Through our engagement with our local business communities, we've found broad support and a great appetite for action amongst our peers. An example is being a founding member of the County Durham Pound (CD£) group of like-minded businesses, who share similar goals and work collectively to improve local spend and social value.

This is a procurement network to improve place-based procurement and local spending, collaborative sourcing and social value impact. This could be through procurement decisions and the way our suppliers are selected, how we operate as responsible and ethical employers or how our grant funding is allocated.

The CD£ won Best Public Sector Project award at the 2023 Social Value Conference and is now expanding to involve nominated local suppliers as 'supporters' and share social value resources and knowledge even further.

As social value becomes a more significant part of the procurement process for many companies, sharing these resources will support local suppliers to better engage with procuring organisations and win contracts. For our own activities, we have adapted our contracts to include social value commitments through both capital investment and operational contracts.

All this work combines into our responsible procurement strategy, which aligns to the UN's Sustainable Development Goals and outlines what we call the 'Impact Initiative 7' (ii7). The ii7 sets key activities within seven areas - environment, local spend, diversity, skills, innovation, social value, and modern slavery - which will help us, and our supply chain have the biggest possible positive impact.

Reputation

We know how important it is that our customers trust us and have confidence in the services and information we provide them. Research tells us they want and expect more from us and we need to make sure our customer's experience is as good as it can be, to do this we must get it right, the first time, in fast time, every time.

Trust to NWL is:

- keeping the promises we make;
- personalising our service or solution for each customer;
- going above and beyond our customers' expectations; and
- maintaining our core service so that customers always have water supplied and waste taken away, as this is what they expect.

Through engagement and listening to what is important to our customers is essential, every member of our team takes ownership when things go wrong, and we put things right quickly. Last year, we dealt with water supply issues in Suffolk due to a burst. Customers faced interruptions and collecting drinking water from our bottled water stations. We took accountability and shared regular updates and valuable information every step of the way, whether the news was good or bad.

Our customers want someone they can trust and that's why at NWL our people are our business and are at the heart of everything we deliver. Through their commitment and drive to provide our customers the service they expect we can build trust in our company and wider industry. Delivering on our promises and doing it right and showing we care is a part of this.

In March 2024 we were again named on the World's Most Ethical Companies list compiled by the Ethisphere Institute. This is the 13th time we have featured on the list, which assesses issues including community activity, environmental performance and employment practices.

We also achieved the Good Business Charter accreditation for the third time in January 2024, the only water company to have this. The Charter, which is supported by the Trades Union Congress (TUC), is an independent not-for-profit organisation that encourages and recognises responsible business practices.

Our customes say we are a company they trust.

It accredits ethical businesses by measuring their behaviour over ten key components. These include paying the real living wage, fair hours and contracts, employee wellbeing, employee representation, diversity and inclusion, environmental responsibility, paying fair tax, commitment to customers, ethical sourcing, and prompt payment.

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.

Given the national media and political backdrop, it's unsurprising that positive sentiment towards the industry has fallen, and scores on trust and satisfaction, among others, have dropped across the country. Nevertheless, we remain proud that we are once again the most trusted water and sewerage company in England. In the Water Matters results we were ranked top for:

- affordability of water and sewerage charges;
- satisfaction with overall experience of water and sewerage service provider;
- confidence in the long-term supply of water;
- overall satisfaction with sewerage service in England; and
- satisfaction with value for money (water).

We know there is always more that we can do, and we are committed to provide our customers with the unrivalled experience they expect from us and deliver on our ambitious AMP8 transformation programme, where we are investing £3.6 billion to make sure we increase the resilience of our water and wastewater services, while continuing to restore and regenerate our local environment.

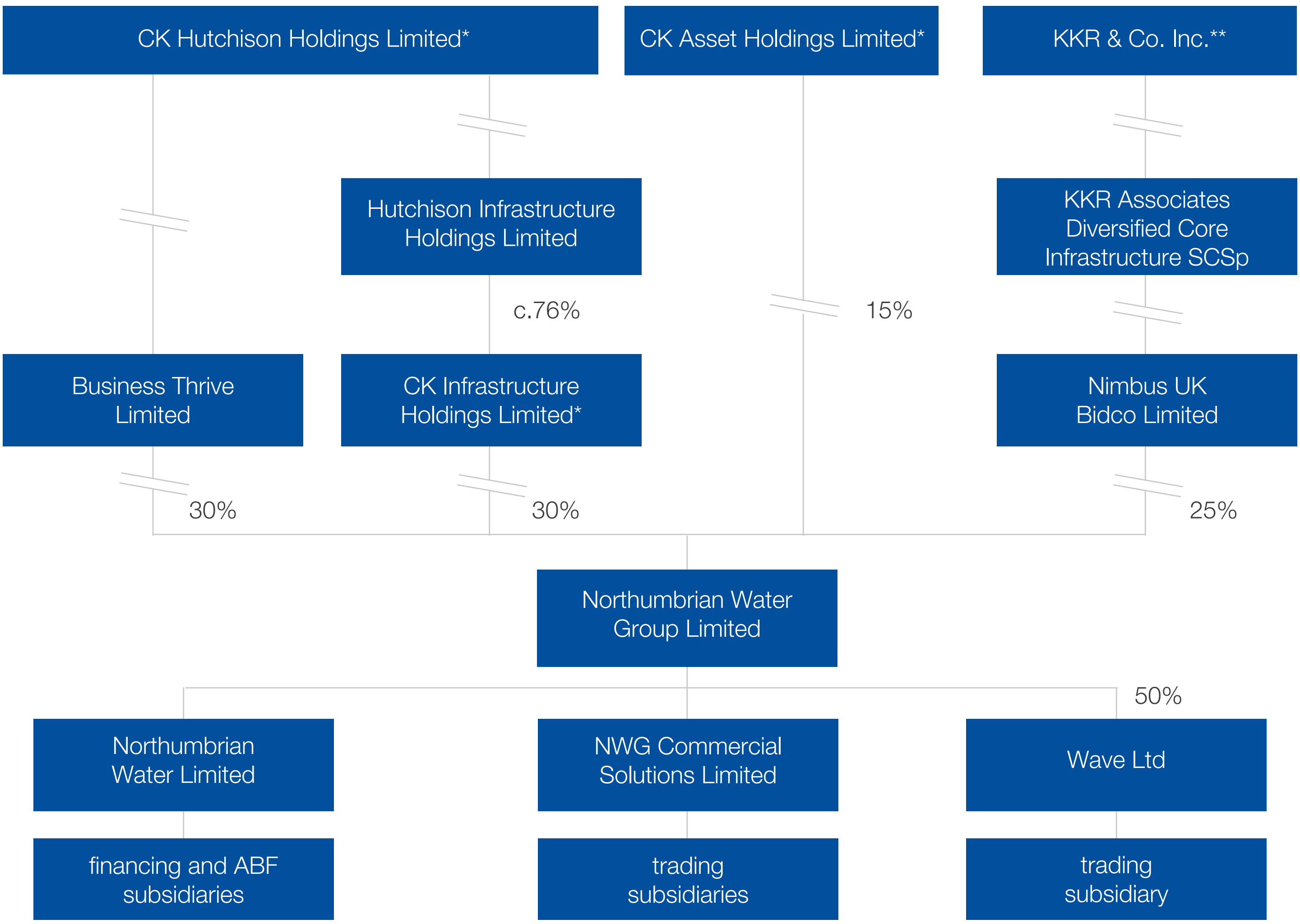
Financial performance and structure

Ownership 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 NWGL Group. The chart shows the principal intermediate holding companies and subsidiaries in the structure, which are wholly owned unless otherwise shown.

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).



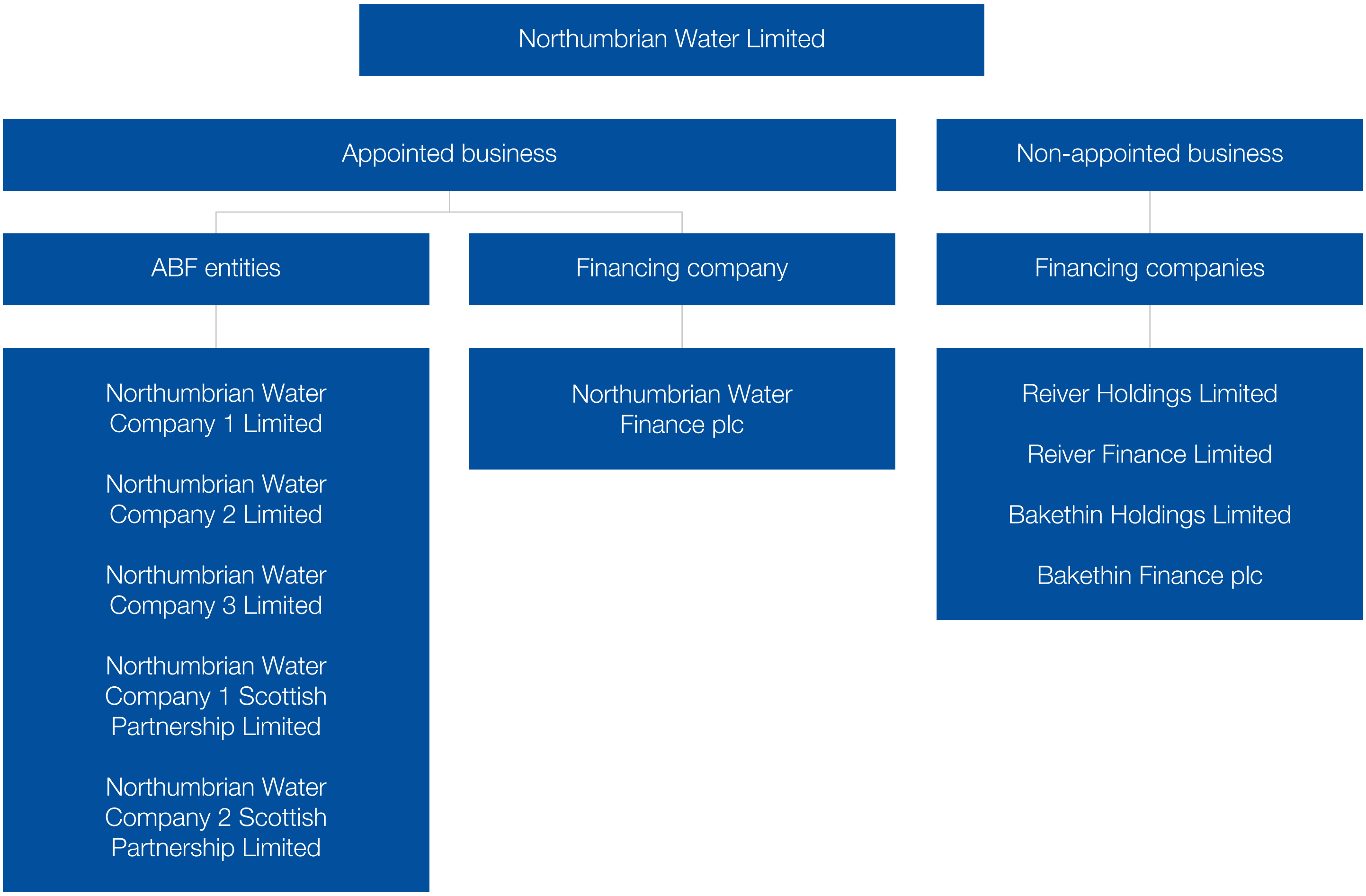
*Companies listed on The Stock Exchange of Hong Kong Limited
**Company listed on the New York Stock Exchange

NWL Group structure

During the year, NWL entered an Asset Backed Funding (ABF) arrangement in respect of its defined benefit pension scheme. This arrangement provides greater security to the pension scheme allowing the pension actuarial deficit to be repaid over a longer time period of 15 years. This is beneficial to both the pension scheme and NWL's customers, as it spreads the pension deficit recovery payments over a longer period, improves short term cash flows and improves financial resilience.

The ABF has introduced additional subsidiaries to NWL, shown as 'ABF entities' on the chart below, and additional accounting transactions between NWL and these subsidiaries. NWL has therefore produced consolidated accounts for the first time in 2023/24 which eliminates these additional accounting transactions and gives a clearer representation of the NWL Group of companies, including the net impact of the ABF arrangement.

In addition, the existing financing companies set up for the Kielder securitisation transaction in 2004 are also included in the consolidated position. The chart below shows the NWL Group companies included in the consolidated accounts, and where they sit in relation to the regulatory ring-fence.



Financial performance

Following the introduction of the additional ABF entities to the structure, the Financial Statements on **pages 124 to 129** have been prepared on a consolidated historical cost basis for the NWL Group under International Financial Reporting Standards (IFRS). The Company Financial Statements on **pages 190 to 192** have been prepared in accordance with Financial Reporting Standard (FRS) 101, reflecting IFRS with reduced disclosures.

The Group's consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity and cash flow statement are set out on **pages 125 to 129**. The key accounting policies are summarised in note 1 to the Financial Statements on **pages 130 to 137**. The following financial commentary relates to the consolidated financial statements.

The financial KPIs we report in our balanced scorecard on **page 25** reflect the financial covenants underpinning our committed bank facilities and regulatory gearing, which are reported at each Board meeting. The financial covenant gearing and interest cover KPIs remained better than the target for the year. Regulatory gearing was 70.2%, marginally above the target of 70%.

Revenue was £918.9m for the year ended 31 March 2024 (31 March 2023: £861.2m), an increase of £57.7m. (See note 2 to the Financial Statements). This mainly related to an increase of £54.2m in combined household and non-household revenue, which included the impact of the redetermination of the FD by the CMA and 9.4% CPIH inflation on wholesale revenue.

Operating costs, including capital maintenance costs, for the year ended 31 March 2024 were £685.7m (31 March 2023: £638.7m), an increase of £47.0m. (See note 3 to the Financial Statements). The most significant area of increase related to employee costs, reflecting growth in employee numbers and inflationary salary increases, as well as a one-off credit in the prior year not recurring. In addition to other inflationary cost increases, depreciation charges have increased reflecting the ongoing level of capital investment.

The Group operates an Energy Hedging Strategy to manage future energy cost volatility. The Group's policy is to fully hedge its energy exposure up to two years ahead through a combination of forward purchases and a wind power purchase price agreement. Energy costs remained high during the year, reflecting prices at the date of hedging, but are expected to reduce over the next two years as market prices have fallen.

Net interest payable was £234.4m in the year ended 31 March 2024 (31 March 2023: £276.1), a reduction of £41.7m. This was primarily due to lower accretion on index-linked bonds as inflation fell during the year, though it still remained higher than average levels over the past 30 years. See note 6 to the Financial Statements for further detail. This resulted in a loss before tax of £1.2m for the year ended 31 March 2024 (31 March 2023: loss of £53.6m).

There was a net tax charge to the consolidated income statement of £0.5m (31 March 2023: net tax credit of £21.5m). Further details are provided in note 8 to the Financial Statements on **pages 143 to 146**.

The Board's dividend policy was revised in 2022/23 to recognise more explicitly the company's commitments to various stakeholders including customers, employees and investors, and 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 a final dividend of £25.3m for the year ended 31 March 2023 and an interim dividend of £40.5m for the year ended 31 March 2024. After the balance sheet date, a final dividend of £40.4m for the year ended 31 March 2024 was approved and paid. More information is provided in note 9 to the Financial Statements.

Capital investment

Total fixed asset additions in the year ended 31 March 2024 were £466m (31 March 2023: £329.2m), including intangible assets. Around £279m 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. This includes several water resilience projects including the first phase of a pipeline from Tees Valley to central Durham, construction of a new service reservoir in the Sunderland area and a new interconnecting pipeline in Essex. We have also continued to invest to improve the resilience of our wastewater assets, as well as cyber resilience, and smart metering.

In its PR24 Business Plan, the Company has submitted a significant increase in capital investment for the AMP8 period, from April 2025 to March 2030. In October 2022, Defra asked water companies to propose AMP8 schemes for accelerated delivery. NWL subsequently received approval to accelerate five projects, four related to improving water resilience in our Suffolk operating area and one to reducing storm overflow spills in the Berwick area in Northumberland. These projects were all initiated in the year. In addition, the Board approved the acceleration of other planned AMP8 investment on statutory enhancements. In total, the Company is planning to deliver up to c.£100m of accelerated AMP investment by March 2025.

Capital structure and liquidity

The Company drew down loan agreements with two of its relationship banks in June 2023 for a combined value of £150m on a variable rate basis with a seven year term.

In October 2022, the Group established a £6bn European Medium Term Note (EMTN) programme enabling more regular and efficient issuance of bonds. In March 2024, under the EMTN, the Group, through its financing subsidiary NWF plc, issued £250m of fixed rate bonds, with a 13½ year tenor, and £100m on CPI-linked bonds, with a 15 year tenor, although the funds weren't received until April 2024, after the balance sheet date.

The Group's long-term debt structure therefore remained largely unchanged with 60% fixed at an average rate of 4.51%, 36% index-linked at an average real rate of 1.38% and 4% on a variable rate basis, after allowing for hedging instruments.

The blended average nominal rate for the Company for the year ended 31 March 2024 was 5.97%.

We have a committed bank facility of £450m for the purpose of maintaining general liquidity with a maturity date of December 2025. At 31 March 2024, £355m of this facility was undrawn (31 March 2023: £450m). In addition, at 31 March 2024 the Group had a short-term working capital loan from NWGL, its parent company, of £58.5m (31 March 2023: £33m). Following receipt of the funds in April 2024 from the EMTN bond issues, both the bank facility and working capital loan were repaid in full.

Our RCV, on which our allowed regulatory revenue is based, increased to £5,442.7m at 31 March 2024, from £5,097.4m at 31 March 2023, reflecting growth from CPIH and RPI indexation.

The Group gearing (excluding Kielder debt), which is measured per the financial covenant for the committed facility, increased from 68.3% to 70.0%, well within the target of 77.5%. Regulatory gearing increased from 68.3% to 70.2%, marginally above our target level of 70.0%. The interest cover ratio reduced from 3.2x to 2.9x.

The Group has investment grade credit ratings. Moody's affirmed its long-term issuer rating of Baa1 with a stable outlook in April 2024. In October 2023, Fitch assigned NWL a senior unsecured debt rating of BBB+ with a stable outlook. Subsequently, in January 2024, Standard & Poor's (S&P) withdrew its long-term issuer credit rating at the Group's request. We report on our financial resilience in our viability statement on **pages 117 to 123**.

Treasury policies
The Board is responsible for the financing strategy of the Group 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.

Liquidity risk
The Group'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 2024, NWL had £355m (31 March 2023: £450m) of undrawn bank facilities, provided by a group of five key relationship banks, which mature in December 2025.

Interest rate risk
The Group 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 Group's policy is to keep a minimum 50% of its borrowings at fixed rates of interest. At 31 March 2024, 60% (31 March 2023: 61%) of the borrowings of the Group were at fixed rates of interest. Index-linked borrowings are treated as variable rate debt.

Credit risk
The Group invests surplus cash with banks on a short-term basis. The treasury policy specifies which counterparties the Group 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(p) of the Financial Statements sets out the Group's bad debt policy.

Foreign currency risk
The Group'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 2024, the Group had forward foreign exchange contracts of £4.2m (31 March 2023: £4.0m) for the purpose of hedging the foreign currency risk of committed future purchases (see note 19).

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

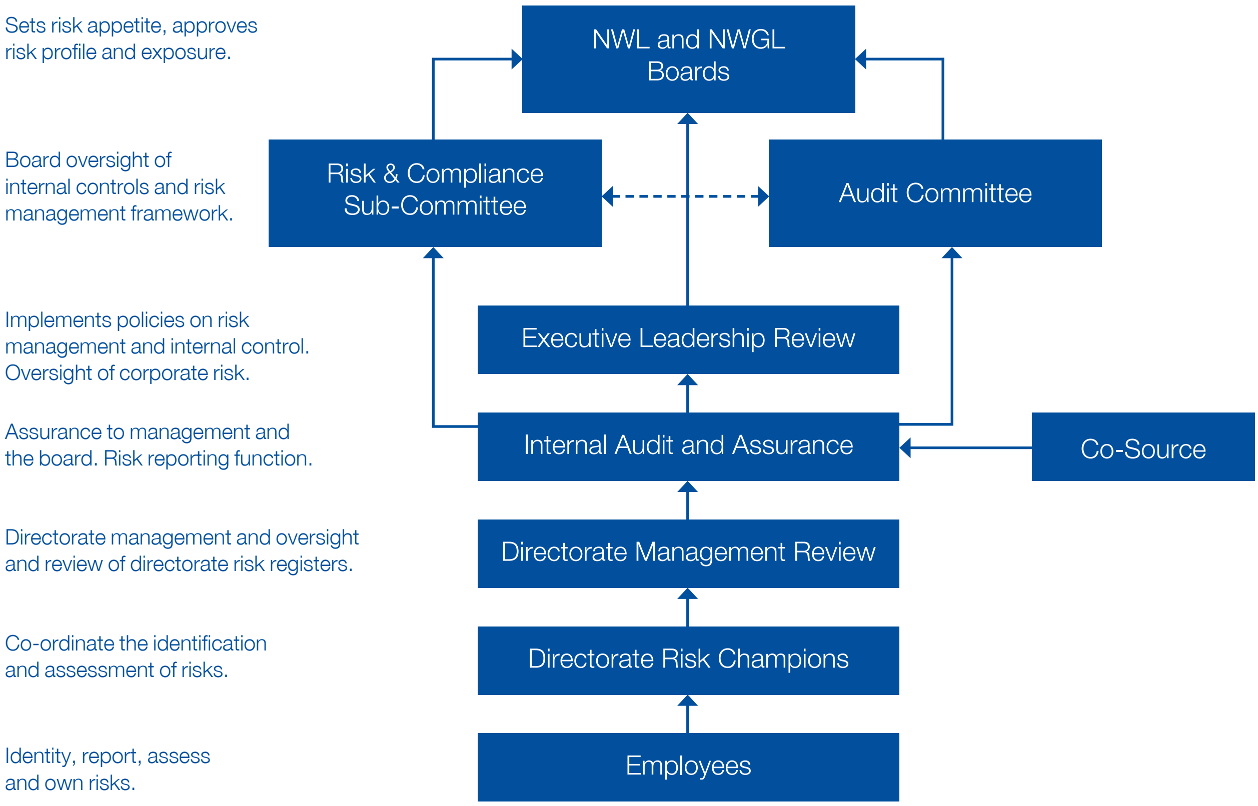
Risk report

Risk Management Framework

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

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

The 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 emerging risks as those which are foreseeable, but not with sufficient clarity to be assessed within the corporate risk model. These are captured in an Emerging Risk Register and a sub-group of the Board carries out a review of these risks annually, most recently in November 2023. These risks are also reported to the R&CSC at each of their meetings and can be amended throughout the year.

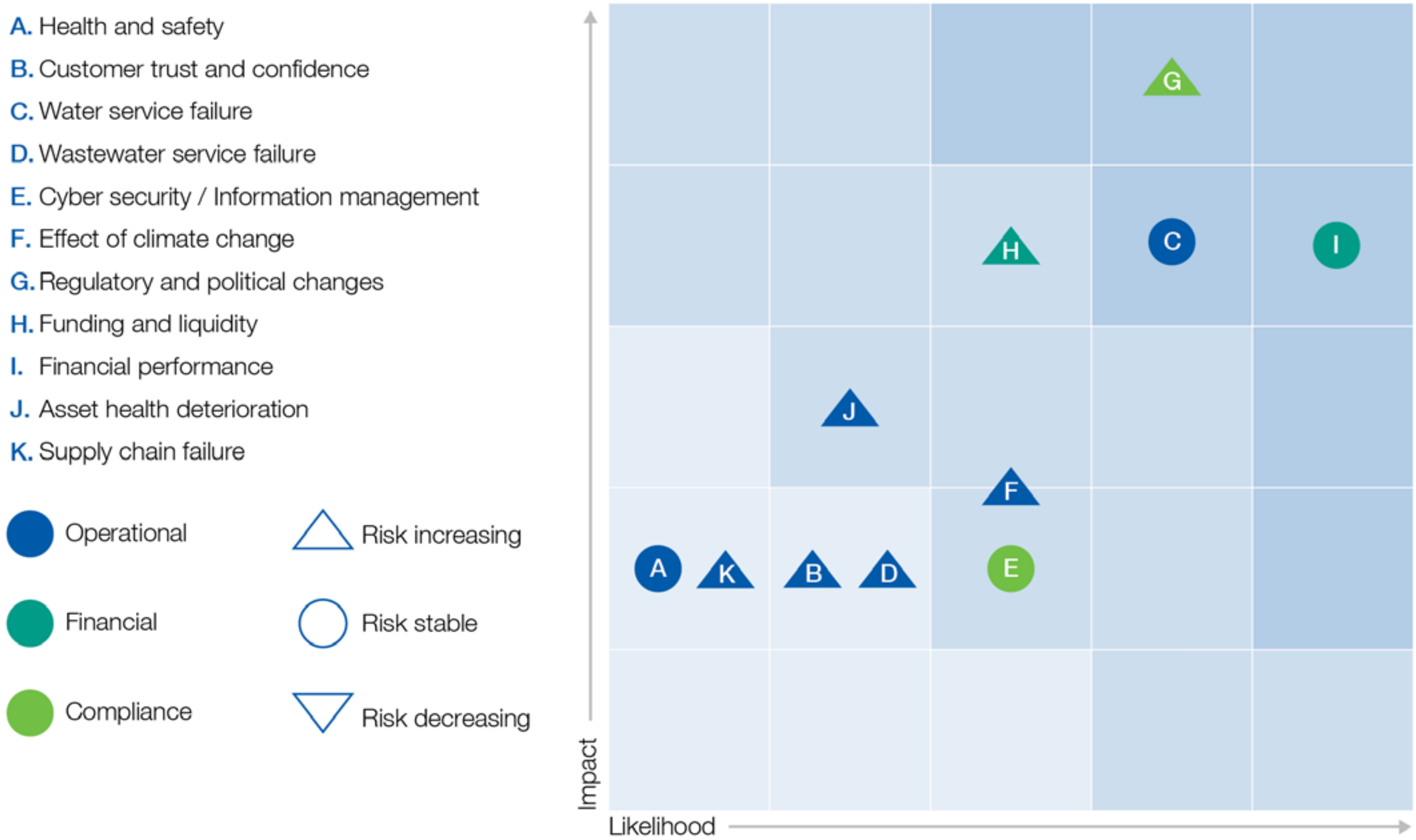
Principal Risks and Uncertainties

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 67 to 71 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 117 to 122.

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.



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 staff, contractors and members of the public is our highest priority. Health and safety matters are given a high priority at all meetings of our ELT and Board. Long-term planning and targets are set to drive continuous improvement. This is underpinned by our focus on improving behavioural safety and creating a great safety culture. Our health and safety management system defines clear arrangements and responsibilities throughout the Company. This is supported by a programme of leader safety visits, compliance audits, training and safety awareness tools. 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, 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. This includes ongoing investment in our people and in our customer facing systems and the digital experience we offer to our customers. We continue to improve our support for customers in vulnerable circumstances, through our Inclusivity Strategy, StepChange partnership and range of financial support arrangements. We are committed to eradicating 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 extreme weather events, 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
Wastewater service failure A problem in our wastewater system could cause either significant environmental pollution or flooding of customer properties. This could have many potential causes, including insufficient network capacity to cope with severe weather events, the failure of a strategic wastewater asset, 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 environment increasing (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 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. In response to the anticipated scale of the AMP8 investment programme, we have created our Living Water Enterprise, with 12 lead partners to deliver longer cycle and higher complexity projects along with a further 33 partners to support shorter cycle and lower complexity work.	Risk environment increasing (significant increase in AMP8 investment across the sector).
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 have submitted evidence-based business cases for additional asset health investment in our PR24 Business Plan.	Risk environment increasing (insufficient funding allowances over time).

Description of risk	Mitigation	Change from prior year
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 the resilience of water resources and the integrity of our assets. This may be exacerbated by growing population and ongoing urbanisation. We are resilient and provide clean drinking water and effective sewerage services; now, and for future generations We take care to protect and improve the environment in everything we do, leading by example	Our approach to mitigating short-term risks of service failures on our water and wastewater businesses are set out in the risks above. We consider the longer-term impacts of climate change in our long-term planning, such as our WRMP and DWMPs, and identify long term solutions to future potential resilience issues well in advance. Our Environment Strategy sets out our priorities for effective climate action alongside our Emissions Possible plan to achieve net zero and our Climate Adaptation Report to show how we will adapt out operations and infrastructure. Whilst management acknowledges the risks posed by climate change, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the Financial Statements for the year ended 31 March 2024.	Risk environment 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 access 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.	Risk 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. An inconsistent and unpredictable approach undermines investor confidence in the stability and predictability of the regulatory framework. A change in future government could introduce 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.	We 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.	Risk environment increasing (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 an approved Treasury Strategy which sets out a framework to meet funding needs over the next five years and has established a £6bn EMTN programme enabling more regular and frequent issuance of bonds. This is supported by treasury policies which set out how we manage treasury risks (see **page 63**). Short term working capital funding is supported by £450m of standby committed borrowing facilities. We are committed to maintaining our investment grade credit ratings and manage our financial plans accordingly. Our viability statement on **pages 117 to 122** reports on the financial resilience of our plan over a 12 year time horizon.	Risk environment increasing (AMP8 investment needs creating funding pressure across the sector).
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 117 to 122** reports on the financial resilience of our plan over a 12 year time horizon.	Risk stable.

Approved by the Board and signed on its behalf:

H Mottram CEO
10 July 2024

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 81 to 88 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 continues to ensure that INEDs remain 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 75) 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 76 to 96**).

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.

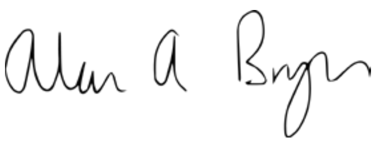
We are therefore fully involved in all the main aspects of NWL's governance and the Board is satisfied that this enables it to ensure that sound governance is maintained.

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 NWGL and NWL Board level 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 by the NWGL Board.

All INEDs have continued to take part in extensive sessions with management on business risk and PR24 planning. In particular during the year, the INEDs were able to draw on their broad and diverse experience, to provide support and challenge in the preparation of our plan for PR24 and to oversee the performance of the Company. We have also met from time to time without management or the other Directors being present (with and without the Company's auditors) and have 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, the INEDs as a group believe that the Board and its Committees and Sub-committees have sufficient independent membership. I am confident that the INEDs do, 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.



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 NWGL Group. Mr Hunter is also an Executive Director of CK Hutchison Holdings Limited and Chairman of Power Assets Holdings Limited, both of which are listed companies. 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 Masters 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 Group'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 is 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 Masters 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 Group'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 Group'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. In January 2024, Mr Sexton became a trustee of the International Financial Reporting Standards Foundation where he chairs the Budget and Finance Committee and sits on the Audit and Risk and Nomination Committees. 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 Group's activities in Essex and Suffolk.

Key strengths: Finance, risk and corporate governance.

P Vicary-Smith (Independent Non-Executive Director) joined the Board in July 2021. Mr Vicary-Smith was for 14 years the Chief Executive of the consumer organisation Which?. Prior to that his background was in marketing, and included roles as a strategy consultant at McKinsey, leading fundraising for Oxfam, and as Commercial Director at Cancer Research UK. He is Chair of Oxford Brookes University and 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 Group'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 2024. The Board considered this sufficient to enable it to discharge its duties effectively and met 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 was as follows:

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

(*W C Tong Barnes acts as alternate for H L Kam)

Corporate Governance Statement

The Boards of the Group 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, do so 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 2024, 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 Group 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 Group to discharge their responsibilities effectively.

As the Chairman says in his introduction (on **pages 73 to 74**), 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 Group meets this Objective:

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

The Group's purpose statement (set out on page 10) has been informed by an extensive research and consultation exercise with customers, suppliers, and employees. The statement captures how NWL cares for the essential needs of our communities and the environment, now and in the future, and the positive difference it makes by investing over the long term to create a sustainable and resilient business.

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

This open and consultative culture is embedded in how the Group does business. It is also maintained through a very broad programme of engagement, including regular meetings at Chief Executive level with local authorities across our operating areas, and participation in regional and national business organisations. The Group 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 Group 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 Group's strategy, values and culture and is satisfied that these are consistent with the Group's purpose. The Board recognises that the Group's strategy needs to reflect the purpose, as well as customers' long-term priorities and to take account of Ofwat's emphasis on public value. The Group's 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 Group 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 senior management to discuss people issues, including where there is any requirement to take corrective action in the event of any identified misalignment with the Group's purpose.

The People team keeps Group policies and procedures under review to ensure that these properly reflect the Group 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 Group'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 Group 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 Group's services to customers, leakage, water quality and environmental performance are discussed fully by the Board.

The Standing and Executive Committees of the Board can take decisions not delegated to specific committees between Board meetings within the parameters of applicable terms of reference. 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 Group'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 Group'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. internal governance and control framework;
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. health, safety and security plan; and
l. PR24 Business Plan submission.

A Board statement as detailed above is included in NWL's APR for the year ended 31 March 2024.

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 Group'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 Group's business, including the freedom to set, and accountability for, all aspects of NWL's strategy. This is evidenced by the fact that the PR24 Business Plan was developed and approved entirely by the NWL Board.

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

The Group has also adopted financial approval rules which set out the authorisation processes and financial limits to be applied to financial transactions within the Group. The Board reserved matters, 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 it is required to have full responsibility for all aspects of the Group's business and, to that end, has never rejected a recommendation of the 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 the Group. 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 directors of companies within the NWGL Group, of which the Group is part, manage their own affairs. Whilst support and assistance is provided when asked for, it is recognised that local management has hands-on knowledge of the operational business and of customers' needs and priorities. Consequently, non-NWL interests of shareholders are never a factor in decision-making of the 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 Group 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 59.

(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 9 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 Group'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 64 to 71.

(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 page 76. 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 Group's executive pay policy is provided in the Remuneration Committee Report on pages 97 to 112, 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 Group 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 76 to 78**.

The Board therefore has an excellent balance of skills, experience, independence and knowledge of the Group. 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 Group had a single ultimate controlling shareholder. In the last externally facilitated Board effectiveness review, conducted in 2021 (the "External Review"), detailed comments were invited on the Chairman's performance. The Chairman was 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." and it was noted 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, the fact that the Chairman is not independent is not considered to be an issue for concern.

There is a clear division of responsibilities between the running of the Board and the executive running the business and this is documented in the Board's terms of reference, clearly stipulated matters which are reserved for the Board and the Company's articles of association.

(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.*

The Group undertook an annual evaluation of the performance of the Board during the year, which included a survey of the Board and its Committees.

The aim of the evaluation process was to assess the Board effectiveness in collectively working for the long-term success of the Group and fulfilling its key three roles of setting the strategic direction of the Group, monitoring management performance, and providing support and advice. As such, the assessment enabled the Board to purposefully identify and overcome any barriers that impeded its effectiveness and to identify areas for improvement.

Overall, the survey reported very good feedback and in general, there was agreement that this Board is effective, functions well and works cohesively and productively as a whole.

It is intended to appoint an external body to provide board evaluation services in the current year to build on the internal board evaluation carried out during the year.

(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 most recent recruitment campaign for the INEDs which occurred, 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 the External Review, comment was invited 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’.

On appointment, INEDs participate in a comprehensive on-boarding and induction programme, covering all key aspects of the Group’s operations, responsibilities and financial structure. ‘Teach-ins’ with senior colleagues and visits to key sites take place during the year. These site visits continue as a method of providing enhanced understanding of the workings of the Group to the Board. The programme is flexible and appointees are encouraged to help shape it.

(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 Group 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 Group's Chairman, which the Board considers appropriate in the context of the Group's ownership structure.

The INEDs play a leading part in the 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 of compliance with regulatory obligations. 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 Group, 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 Group's interests. However, there is no breach of this duty if the Board has authorised the matter in question. The Company's 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.

The Board and management believe that it is appropriate to formalise NWL's commitment to ESG matters at Board level by establishing an ESG Board Committee. This Committee will assume responsibility for oversight on ESG matters, aligning practices with regulatory requirements and stakeholder expectations, including identifying and mitigating climate-related risks and opportunities, and providing strategic guidance to the Board.

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 to discharge their individual and collective responsibilities in relation to:

- ensuring the financial and accounting systems of each Group company are providing accurate and up-to-date information on its current position;
- ensuring the published Financial Statements of the Group companies represent a true and fair reflection of this position;
- ensuring the integrity of the Group'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 AC also maintains oversight of internal and external auditors. I have worked with the members of the AC 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 AC 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 AC'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 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(r) to the Financial Statements on **pages 137**;
- 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 AC monitors the independence of the audit through different reviews and actions including:

- confirmation that the auditor is, in its professional judgement, independent of the 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 10 years and mandatory rotation after 20 years;
- considering new accounting standards and reviewing their applicability to the Group;
- 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 AC 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 Group 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 2023/24 amounted to fees of £143k, comprising assurance services related to the annual update of the EMTN programme and third party contracts. The fees paid are set out in note 4 to the Consolidated Financial Statements on page 139.

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

Internal Audit

The 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 Group and that the audit work focuses on key controls.

Internal audit reports reviewed by the Committee during 2023/24 included:

- **March 2023**
  Interruptions to Supply process including GSS
  Customer complaints and Account Queries
  Sewer Flooding Process including GSS
- **June 2023**
  Event Duration Monitoring – Data Assurance
  Leavers Process Review – System Access Rights
- **September 2023**
  Payroll and HR processes

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 Group'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 Group's Long-Term Viability Statement.

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

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

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

(*C Ng attended 4 meetings as alternate 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 R&CSC is to assist the CEO, NEDs and INEDs to discharge their individual and collective responsibilities in relation to assessing the scope and effectiveness of the 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 2024 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 Group'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 Group, 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 64 to 71 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 Group's risk management and internal control systems. This review confirmed that the Group 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 Group;
- reviewing high impact, low likelihood risks which have a rare to unlikely likelihood of occurrence but a potentially catastrophic level of impact;
- reviewing risk assessment processes as well as keeping the effectiveness of the risk and internal control management systems under review;
- reviewing the Group Safety Plan and associated independent assurance;
- monitoring compliance with covenants and treasury risks;
- reviewing management of customer debt; and
- reviewing the risk and control framework and reporting.

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

Name	Attendance
R G Sexton	2
A A Bryce	2
J M McGlade	2
B C Rosewell	1
P D Vicary-Smith	1

The R&CSC 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 Group'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 Group's website. The members of the Nomination Committee during the year were A J Hunter (Chairman), D N Macrae, A A Bryce, B C Rosewell and P D Vicary-Smith. The Committee met twice formally during the year.

Compliance with the Wates Principles

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

Principle One – Purpose and Leadership

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

Please see the comments on compliance with Objective 1 of the 2019 Ofwat Objectives, on pages 81 to 83.

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 86 to 88.

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 Group 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 84). The Board's approach to conflicts of interest and the relationship between the Group 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 and matters reserved to the Board for approval and terms of reference of its Committees and Sub-committees are reviewed periodically by the Board (as also explained in the comments in relation to Objective 2 of the 2019 Ofwat Objectives on page 84).

Details of the Board's Committees and Sub-Committees are set out in the comments on Ofwat's 2019 Objective 4, on pages 86 to 88.

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 Group'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 Group is a long term business and ensuring its long term sustainable success is a key driver underpinning the work of the Board and its Committees and Sub-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 64 to 71.

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 Group's executive pay policy is provided in the Remuneration Committee Report on pages 97 to 112.

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 Group's extensive stakeholder engagement programme are set out on pages 15 to 18.

Code of Conduct

The NWGL 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

Contents

Members

All members of the remuneration committee attended all meetings in 2023/24 which were held in May 2023 and January and May 2024. The majority of the remuneration committee are independent Non-executive Directors.

A J Hunter (Chairman)

A A Bryce

D N Macrae

B C Rosewell

P D Vicary-Smith

H Mottram attends at the request of the committee and only as required, but does not participate in discussions relating to her own remuneration.

Key responsibilities of the committee

- Determining and recommending to the board the policy for executive director remuneration, having reviewed and taken into account NWL purpose, vision, strategic themes and values, and external benchmarking.
- Reviewing incentive plans based on a view on what constitutes stretching targets and a balanced, stakeholder driven view of performance.
- Agreeing STIP and LTIP payments for the 2023 calendar year, including confirming that the gateway assessment for customer and environmental measures had been successfully achieved and reviewing performance against the balanced scorecard measures.
- Setting STIP and LTIP performance targets for the 2024 calendar year, and ensuring that targets are at stretching levels aligned to industry-leading performance.

Alignment to Our Purpose

Our approach to pay is designed to incentivise and reward behaviours that align with our strategic Objectives, Purpose and Vision, ensuring that we not only meet, but exceed the expectations of all the stakeholders and communities we serve. By linking compensation to a rounded and stretching view of performance, we foster a culture of excellence that reinforces our dedication to running a successful company and driving positive impact across all areas of delivery.

This alignment helps to ensure that senior management and directors, whose bonuses are directly linked to the balanced scorecard, are motivated in a holistic sense, ensuring their deep commitment to contributing to NWL's vision and purpose.

Chairman's introduction

Remuneration at NWL

We are a Board which takes our responsibilities very seriously. We believe that companies should perform to high standards, particularly when caring for the essential needs of our communities and environment, now and for generations to come.

Our remuneration committee (RemCo) plays a pivotal role in ensuring that our remuneration strategy is robust and intrinsically linked with the sustainable delivery of exceptional value to all our stakeholders. Key to this is the delivery of a balanced set of targets spanning our five strategic priorities.

Our approach to remuneration reflects our ambition to set the standard in the water sector and we set remuneration targets that are stretching and indicative of our desire to be at the forefront of industry excellence. It is with this mindset that we acknowledge instances where bonuses are consciously withheld when key performance metrics, although commendable, are not achieved. This stringent approach underscores our determination to not just meet, but to exceed industry benchmarks.

We are committed to providing a high level of transparency on performance related executive pay, including as a percentage of total compensation. This year we have carefully considered how to share more information via this report to demonstrate our long-standing approach in relation to:

1. alignment of targets to delivery of value for customers and the environment;
2. setting stretching targets; and
3. taking overall performance into account.

These are practices that we have historically been holding as key remuneration principles and this year we share additional detail on how stretching our targets indeed are.

We are engaged with the ever-increasing scrutiny on remuneration and the commentary around Executive pay and bonuses. In considering how we approach and communicate remuneration, we are very mindful of our role in building confidence in the industry. Our balanced scorecard approach is fundamental to this aim.

Remuneration in 2023/24

This fiscal year we have made good environmental progress, including: no serious pollutions; improved water quality; record-low leakage; and enhanced water management. We are also pleased with our D-MeX result (placing 2nd this year, an improvement from 6th in 2022/23) which reflects a coordinated effort to create an unrivalled experience for our service partners.

We always reflect on aspects of our performance where we can and should do better. For example, whilst we have made significant investment in recent years to improve water quality, we have more to do in this area. We have rigorous plans in place around this, including enhancements in on-line monitoring capability to increase resilience and control of the treatment processes.

I am pleased that we remained in the upper quartile for C-MeX, although we marginally missed our very stretching target to be in the top two for performance. This position confirms that we are delivering excellent service to our customers. It is indicative of our stretching approach that whilst some others may reward below Upper Quartile level, our performance this year has not achieved target. We are determined to improve and are committed to returning to a top-2 rating in 2024.

We have also reflected on whether the Group has experienced any significant performance issues not measured by the scorecard and have concluded that it has not.

A comprehensive review of basic pay was commissioned, the first in ten years, to ensure to ensure that NWL is keeping pace with market trends and to proactively account for negative gender bias in the market data. This review resulted in an increase in Heidi Mottram's (CEO) basic salary of 14.8% in 2023/24 compared to 2022/23. In line with our approach, basic salaries across the organisation are aligned with changes in the market.

Our people are fundamental to our success and impact, and this approach is a component in ensuring that we attract and retain the right talent across our organisation.

Bonus pay has been calculated in line with successful achievement of stretch targets against 17 balanced scorecard STIP (Short term incentive plan) areas. Full award of bonus for delivery of financial targets (competitiveness) was awarded, alongside half of the bonus for non-financial targets (customer, environment, people and communities). This year, for the first time, the RemCo implemented a ‘threshold’ to ensure that environmental performance was even more stringently reflected in the bonus outcomes, whereby a minimum of a ‘Good’ (3*) rating on the Environment Agency’s Environmental Performance Assessment (EPA) had to be met before any of the environmental elements of the scorecard were rewarded. Publication of the EPA for 2023 has been delayed because of the UK General Election. However, having assessed the individual performance metrics which contribute to the EPA and considered the methodology for calculating an overall score which has been used in previous years, we anticipate receiving a 3 star rating when the assessment is published. If this minimum level is not achieved then the bonus will be amended.

This performance has resulted in awarding 72.5% of the total possible STIP bonus, with a further 13.2% award made to the CEO by the Committee to reflect the Board’s satisfaction with her performance related to additional corporate activities. LTIP (Long term incentive plan) has been awarded at 35% of the total possible awarded bonus. These awards are paid by NWGL with no payment made by NWL, therefore the Group’s customers are not bearing the cost of any Directors’ bonuses for the year.

Looking across our broader employee base, we continue to use remuneration to create alignment of strategic decision making with our purpose by also aligning 100% of bonus pay for our Executive Leadership Team directors and 80% bonus pay for Senior Managers (with 20% allocated on leadership behaviours) to the 17 balanced scorecard areas. We also recognise performance of all employees in line with our values and their impact on culture.

A look ahead

As the committee continues to deepen the level to which we integrate purpose and impact within our remuneration, we look forward to working closely with NWL’s newly established ESG committee in 2024/25. This will enable us to review and to make improvements in how we connect areas including wellbeing, diversity, equity and inclusion, and safety into our remuneration policy.

We again have ensured that remuneration targets are set at stretching levels to drive year on year performance improvements to deliver our ‘national leader’ vision. We lay out our targets on page 109.

In summary, our long standing commitment to exceptional value, high performance and sustainability will remain at the heart of our thinking, with stretching and balanced goals set to incentivise the highest standards of performance and behaviour from all our leaders.

A J Hunter
Chairman of the Remuneration Committee

Remuneration overview

Recap of year's performance

Northumbrian Water continues to demonstrate a commitment to industry leading sustainable water and wastewater services. Our 2020-25 goals, shaped by customer feedback, indicate top quartile performance as highlighted in our balanced scorecard. We've made strong strides in environmental protection, with noteable improvements in bathing water quality, river cleanliness, and achieving zero serious pollutions. Our customer service ranking remains high, and we're actively enhancing support for over 130,000 customers facing water poverty.

As we approach the final year of our current price review period, we remain focused on enhancing service quality and environmental performance. Our 2025-30 Business Plan outlines ambitious infrastructure and sustainability goals, with increased investment in environmental improvements and water supply resilience. We're addressing the challenges of climate change and are committed to supporting our customers, particularly those in need, as we work towards a sustainable and resilient water future.

Upper quartile in C-MeX

2nd in D-MeX

Most trusted water company in England - CCW Water Matters

Zero category 1&2 pollution events

£29.1m funding secured from Ofwat's Innovation Fund

Customer

We have an ambitious target to eradicate water poverty in our operational areas by 2030. During 2023/24 the number of customers benefitting from a reduced or capped bill increased by 25% and the number of customers on our priority services register increased by 35,000 households, meaning more customers will get the help they need.

We remain determined to eliminate sewer flooding in the home arising as a result of our operations. For the first time we have achieved our Performance Commitment on all three measures of sewer flooding, internal, external and repeat. Despite it being a much wetter year, with rainfall up by c.50% compared to the previous year, we have reduced internal sewer flooding incidents by more than 65% since 2019/20.

Environment

Northumbrian Water is the only water company to use 100% of our sewage sludge to create energy and export surplus to the national grid.

Our bathing waters continue to be amongst the cleanest in the country and we were again ranked second in this measure for the percentage of Good and Excellent coastal bathing waters in comparison with water companies in England. For 2023, 32 out of 34 bathing waters achieved our target with 21 classified as Excellent and 11 as Good.

Competitiveness

Our focus on efficiency has enabled us to deliver for our shareholders and retain the lowest bill in the country for our Northumbrian Water customers.

We lead the industry on innovation. Our Innovation Festival, now in its seventh year, plays a key role in generating ideas, accelerating projects and building partnerships to solve problems. In 2023 the event included 32 design sprints, 3 data hacks, with the participation of 65 sponsors from 41 sectors and over 650 organisations representing 33 countries. We entered the most bids into Ofwat's innovation fund, securing over £29m to date for 16 projects to take forward projects such as turning ammonia into green hydrogen fuel and a national leakage test centre.

77% Employee engagement trust index (7% YoY increase)

81% of colleagues agree NWL is a Great Place to Work

13th time on the World's Most Ethical Companies list

35% of our colleagues volunteered in their communities

People

Our TIDE strategy has driven a culture that enables a more diverse workforce and has led to increases in the numbers of colleagues in all underrepresented groups (female, non-white or with a reported disability) since it was launched in 2021.

It is our aspiration to make sure that everyone goes home safe every day. We continue to see positive employee engagement with our established safety awareness tools and our people voluntarily carried out c.120,000 '60 second checks, held 9,000 safety conversations and 4,100 hazards were spotted and reported with in the business. Our leaders conducted 2,900 safety visits and 3900 contractor safety audits, demonstrating a commitment to visible safety leadership. As a result, the number of High Potential incidents reduced by 30% compared to 2022.

Community

Collaboration with local businesses and the communities in which we operate is core to our goal of being the leading water company in the country through our support for social and environmental projects.

We are committed to spending 60p in every £1 locally, working closely with local suppliers and recruitment organisations to ensure our spending benefits the local economy. We surpassed this target in 2023 at 61.7%.

Introduction to our Remuneration Methodology

Balanced scorecard

At Northumbrian Water, our performance evaluation is underpinned by a balanced scorecard, designed to deliver our strategic vision and purpose. This robust approach assesses annual performance against stretching metrics in alignment with our core strategic themes. 60% of these metrics are non-financial, underscoring our commitment to customer satisfaction, environmental stewardship, employee well-being, and community enrichment.

To further bolster our environmental focus, in 2023 we introduced a stringent new standard within our scorecard framework. We now mandate a minimum 3* rating from the Environmental Performance Assessment (EPA) as a prerequisite for any reward tied to environmental metrics. This requirement strengthens our resolve to not only meet but exceed environmental expectations, further enhancing our vision of becoming the leading water company in the UK.

Stretching targets

Our ambition to be the national leading water company guides decision making and actions across all aspects of NWL. Every year the Executive and Board undertake a rigourous process to assess the targets we set, informed by our customers and stakeholders and then consciously set in line with our vision and purpose to be leading in the context of the wider industry performance. This means that we set our remuneration targets in line with establishing and maintaining a leading position in the market, even if that means that we don't pay out a bonus for performance that is above the mean industry standard. This is a practice that we are proud of.

In the case of C-MeX and D-MeX, we have looked outside of the water industries to understand what leading practice looks like and this underpins our setting a target of being in the Top 2 for C-MeX and D-MeX, which furthers our vision of becoming the national leader in the provision of sustainable water and waste water.

In line with best practice and updated regulatory guidance for 2023/24, which encourages companies to provide clarity on why each target was set and how it can be considered stretching, we have introduced a metric-by-metric summary within our balanced scorecard, which can be viewed on **page 25**.

Throughout each 2023 and future looking 2024 STIP and LTIP scorecard, there is an indication of how stretching each scorecard measure is compared to peers and industry leaders.

STIP scorecard measurement

Short-Term Incentive Plans (STIPs) focus on immediate operational targets, incentivising yearly performance in customer service, efficiency, and regulatory compliance.

Highlighted measures in the table on the next page indicate areas that NWL committed to more ambitious scorecard measures for 2023 from 2022 to continue to drive our purpose and become the leading water company in the UK.

Our Short-term Incentive Plan (STIP) scorecard

Stretching targets key:		
IL	Industry Leading	Top performing water company in England and Wales.
UQ	Upper Quartile	Performance in the best 25% of water companies in England and Wales
AA	Above Average	Performance in the best 50% of water companies in England and Wales.
PC	Performance Commitment	Performance target set in our PR19 regulatory price determination from Ofwat.
PC+	Harder than Performance Commitment	More stretching than our Performance Commitment.
TP	Transformation Plan	Performance improvement plan agreed with Defra.

Scorecard measure	Target	Performance	Achieved	Stretching targets	% of total awarded	% of total STIP potential
Customer						
C-MeX experience[1]	top 2	4th		UQ	0	2.5
C-MeX customer service[1]	top 2	4th		UQ	0	2.5
D-MeX experience	top 2 WASC	2nd		UQ	5	5
Unplanned interruptions >3 hours (mm:ss per property)[2]	<=4:53	5:32		UQ/PC+	0	5
Compliance risk index (number)	<=3	3.45		AA/TP	0	5
Repeat sewer flooding (number)	<=27	24		PC+	2.5	2.5
Internal sewer flooding (number)	<=162	159		UQ/PC+	2.5	2.5
Environment[3]						
Leakage – NW (Mld)	<=118.0	120.0		AA/PC+	-	2.5
Leakage – ESW (Mld)	<=59.0	50.8		IL/PC+	2.5	2.5
Discharge permit compliance (EPA)	100%	98.54		IL/PC	0	5
Pollution incidents category 1 & 2	0	0		IL	5	5
Greenhouse gas emissions (ktCO2e)	<=22.18	19.32		PC+	5	5
Competitiveness						
NWGL Group EBIT	budget	achieved		N/A	20	20
NWGL Group distributions	budget	achieved		N/A	20	20
People						
Employee engagement score (Trust Index) (%)	>=70	77		N/A	5	5
Lost time accidents (number)	<=14	15		N/A	0	5
Communities						
Ethisphere award	awarded	awarded		N/A	5	5
Total			10/17 met		72.5	100

[1]Comined CSS and CES scores put NWL 3rd overall in the industry league table.
[2]The Unplanned Interruptions measure will be paid out if the target is missed but the performance achieved is industry leading. This can only be assessed following the publication of the water company Annual Performance Reports and so this element is a provisional figure.
[3]The Environment targets are only awarded if the Group achieves a 3* or 4* EPA rating for the year. Publication of the EPA has been delayed because of the UK General Election therefore this is a provisional figure.

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 satisfaction with the CEOs performance related to additional corporate activities, taking the STIP pay to 85.7%.

This remained within the limit of the overall potential maximum STIP award. No payment was made by NWL in respect of the STIP, therefore the Group's customers are not bearing the cost of any Directors' bonuses for the year. The full amount of the award was paid by NWGL.

	STIP awarded (out of 100%)	Maximum STIP (% of basic salary)	STIP awarded (% of basic salary)
H Mottram	85.7%	70%	60%

Our Long-term Incentive Plan (LTIP) scorecard

LTIP Scorecard measurement

The scheme relates to the period January 2023 to December 2026. Performance targets were assessed in the first year of the scheme with payment deferred until early 2027, after the end of the four-year scheme period.

Highlighted measures measures below indicate areas that NWL committed to more ambitious scorecard measures for 2023 from 2022 to continue to drive our purpose and become the leading water company in the UK.

Stretching targets key:		
IL	Industry Leading	Top performing water company in England and Wales.
UQ	Upper Quartile	Performance in the best 25% of water companies in England and Wales
AA	Above Average	Performance in the best 50% of water companies in England and Wales.
PC	Performance Commitment	Performance target set in our PR19 regulatory price determination from Ofwat.
PC+	Harder than Performance Commitment	More stretching than our Performance Commitment.
TP	Transformation Plan	Performance improvement plan agreed with Defra.

Scorecard measure	Target	Performance	Achieved	Stretching targets	% of total awarded	% of total STIP potential
Customer and Environment						
C-MeX customer service	top 2 company	3rd	●	UQ	0	10
Unplanned interruptions >3 hours (mm:ss per property)[1]	<=4:53	5:32	●	UQ/PC+	0	10
Compliance risk index (number)	<=3	3.45	●	AA/TP	0	10
Internal sewer flooding (number)	<=162	159	●	UQ/PC+	10	10
Leakage – NW (Mld)	<=118.0	120.0	●	AA/PC+	-	5
Leakage – ESW (Mld)	<=59.0	50.8	●	IL/PC+	5	5
Pollution incidents category 1 & 2	0	0	●	IL	10	10
Competitiveness						
NWGL Group profit after tax	budget	-	●	N/A	0	20
NWGL Group distributions	budget	-	●	N/A	10	20
Total			4/9 met		35	100

[1]The Unplanned Interruptions measure will be paid out if the target is missed but the performance achieved is industry leading. This can only be assessed following the publication of the water company Annual Performance Reports and so this element is a provisional figure.

The table below shows the LTIP earned in respect of services to the Group for 2023/24. No payment was made by NWL in respect of the LTIP, therefore the Group's customers are not bearing the cost of any Directors' bonuses for the year. The full amount of the award was paid by NWGL.

	LTIP awarded (out of 100%)	Maximum LTIP (% of basic salary)	LTIP awarded (% of basic salary)
H Mottram	40%	50%	20%

Directors and CEO 2023/24 remuneration

Directors' Remuneration Policy

The following table describes each component of Directors' remuneration, explaining the purpose of the component and if it is aligned with performance.

Basic salary	Aimed at attracting and retaining leadership for the Group's vision, basic salary is set competitively and reviewed annually without a direct link to performance metrics.
Benefits in kind	Provided in line with Group policy for all employees, these benefits do not vary with performance.
STIP*	Designed to incentivise yearly business performance aligned with strategic themes, STIP payouts are determined by balanced scorecard achievements, and financial targets, with 60% related to delivering benefits for customer and the environment. The environmental performance is subject to an EPA rating gateway.
LTIP*	Intended as a retention tool promoting long-term planning, LTIP rewards are based on multi-year performance against balanced scorecard and financial objectives, with 60% related to delivering benefits for customer and the environment.
Pension	Pension benefits align with market expectations and are provided through a defined contribution scheme or as a salary supplement, independent of performance.

*The contracts of the CEO and Executive Directors include a clause whereby all or some of any incentive payment over a look back period of 3 years can be clawed back in the event of misconduct, misstatement of the Company's financial position or the miscalculation of any incentive payment.

Illustration of CEO's Remuneration

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

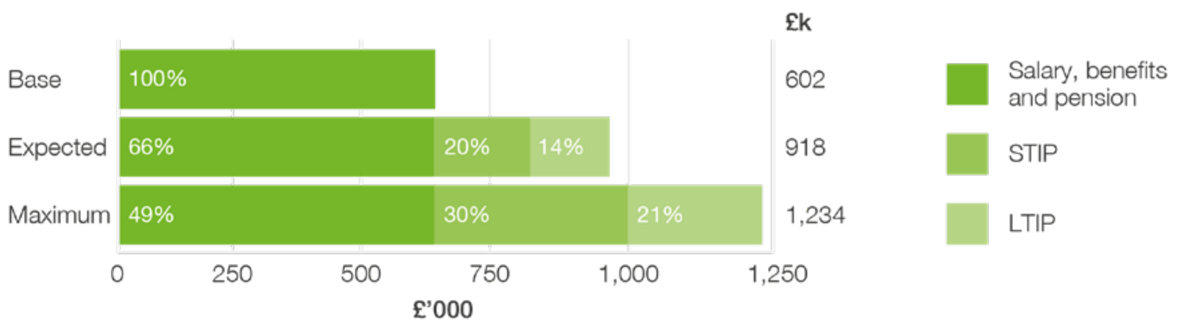
- the base level of remuneration, which is not dependent upon performance and comprises basic salary, benefits in kind and pension;
- the expected level of remuneration, reflecting a typical level of performance against targets for the STIP and LTIP; and
- the maximum level of remuneration, if all STIP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

For H Mottram, 51% of maximum remuneration is linked to Group 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 2023 is provided on pages 102 to 104.

H Mottram



Directors' Remuneration in 2023/24

The table below shows the total remuneration paid by the Group 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 Group 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	
	2024 £'000	2023 £'000	2024 £'000	2023 £'000	2024 £'000	2023 £'000	2024 £'000	2023 £'000	2024 £'000	2023 £'000	2024 £'000	2023 £'000
H Mottram*	483	421	9	8	234	215	81	96	35	41	842	781
A A Bryce	72	72	-	-	-	-	-	-	-	-	72	72
J McGlade	60	58	-	-	-	-	-	-	-	-	60	58
B C Rosewell	60	58	-	-	-	-	-	-	-	-	60	58
R G Sexton	77	80	-	-	-	-	-	-	-	-	77	80
P Vicary-Smith	60	58	-	-	-	-	-	-	-	-	60	58
	812	**747**	**9**	**8**	**234**	**215**	**81**	**96**	**35**	**41**	**1,171**	**1,107**

*The STIP and LTIP payments were earned in respect of NWL activities but the cost was fully borne by NWGL, therefore the bonus costs were not paid by NWL customers. The environmental element of the STIP award is provisional, subject to EPA performance in 2023.

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 Group. NWL pays the amounts shown in respect of salary, benefits in kind and pension. NWGL pays all of the STIP and LTIP cost, therefore NWL's customers are not bearing the cost of any Directors' bonuses. The total remuneration cost for H Mottram which was paid by NWL was £527k (2023: £470k).

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.

Non-director employee remuneration

In alignment with our commitment to fostering a purpose-driven culture, 100% of Executive Leadership Team directors and 80% of senior management's bonus structure is linked to our STIP scorecard, which reflects our collective progress towards strategic objectives. For senior managers, the remaining 20% is contingent upon individual performance based on their leadership behaviours, which ensures that personal contributions are recognised and rewarded. Furthermore, our internal employee reward and recognition program is deeply rooted in our core values - customer focus, one team, results-driven, ethical, and innovative - thereby reinforcing the behaviours that embody our vision and purpose.

CEO remuneration compared to the Company

Percentage change

The table below shows the change in remuneration for 2023/24 compared to 2022/23 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	14.8%	9.5%
Benefits in kind	9.5%	(21.6%)
STIP / annual bonus	8.8%	24.7%

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
2024	Option A	25:1	19:1	15:1
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 Group 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. 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	31	41	37
Total pay and benefits	34	45	57

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 in 2022. 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 76% has been made for the STIP and 41% 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	2024 £'m	2023 £'m	Change %
Employee costs (note 6)	169.8	152.7	11.3
Dividends (note 9)	65.8	110.8	(40.6)

2024/25 remuneration targets

2024 STIP Scorecard Measure

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 2024. 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 to drive year on year performance improvements on a path to deliver our 'national leader' vision.

All of the customer and environment targets are set at a more challenging target than the PC, with the exception of CRI as the Group is currently in a transformation plan to improve performance.

Stretching targets key:		
IL	Industry Leading	Top performing water company in England and Wales.
UQ	Upper Quartile	Performance in the best 25% of water companies in England and Wales
AA	Above Average	Performance in the best 50% of water companies in England and Wales.
PC	Performance Commitment	Performance target set in our PR19 regulatory price determination from Ofwat.
PC+	Harder than Performance Commitment	More stretching than our Performance Commitment.
TP	Transformation Plan	Performance improvement plan agreed with Defra.

Scorecard measure	Target	Stretching target	% of total STIP potential
Customer			
C-MeX experience[1]	top 2 company	UQ	2.5
C-MeX customer service[1]	top 2 company	UQ	2.5
D-MeX experience	top 2 WASC	UQ	5
Unplanned interruptions >3 hours (mm:ss per property)[2]	<=4:53	UQ/PC+	5
Compliance risk index (number)[2]	<=3	UQ/TP	5
Repeat sewer flooding (number)[2]	<=27	PC+	2.5
Internal sewer flooding (number)[2]	<=161	UQ/PC+	2.5
Environment[3]			
Leakage – NW (Mld)[2]	<=115.0	UQ/PC+	2.5
Leakage – ESW (Mld)[2]	<=54.0	IL/PC+	2.5
Discharge permit compliance (EPA)[2]	100%	IL/PC	5
Pollution incidents category 1 & 2[2]	<=1	IL	5
Greenhouse gas emissions (ktCO2e)[2]	<=20.17	PC+	5
Competitiveness			
NWGL Group EBIT	Budget	N/A	20
NWGL Group distributions	Budget	N/A	20
People			
Employee engagement score (Trust Index) (%)	>=72	N/A	5
Lost time accidents (number)	<=14	N/A	5
Communities			
Ethisphere award	awarded	N/A	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.
[3]The Environment targets are only awarded if the Group achieves a 3* or 4* EPA rating for the year.

2024 LTIP Scorecard Measure

The LTIP targets for the 2024 scheme are shown in the table below, in accordance with the 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.

Stretching targets key:		
IL	Industry Leading	Top performing water company in England and Wales.
UQ	Upper Quartile	Performance in the best 25% of water companies in England and Wales
AA	Above Average	Performance in the best 50% of water companies in England and Wales.
PC	Performance Commitment	Performance target set in our PR19 regulatory price determination from Ofwat.
PC+	Harder than Performance Commitment	More stretching than our Performance Commitment.
TP	Transformation Plan	Performance improvement plan agreed with Defra.

Scorecard measure	Target	Stretching target	% of total LTIP potential
Customer and Environment			
C-MeX customer service	top 2 company	UQ	10
Unplanned interruptions >3 hours (mm:ss per property)	<=4:53	UQ/PC+	10
Compliance risk index (number)	<=3	UQ/TP	10
Internal sewer flooding (number)	<=161	UQ/PC+	10
Leakage – NW (Mld)	<=115.0	UQ/PC+	5
Leakage – ESW (Mld)	<=54.0	IL/PC+	5
Pollution incidents category 1 & 2	<=1	IL	10
Competitiveness			
NWGL Group profit after tax	budget	N/A	20
NWGL Group distributions	budget	N/A	20
Total			**100**

Remuneration Annual Statement and policies

Directors' Remuneration Annual Statement

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

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.

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 Group'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; and
- 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 Group's stretching targets and to ensure the Group 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 Group performance through the short-term and long-term incentive plans, with 51% of the CEO's maximum remuneration being linked to performance, as illustrated on page 105. The cost of CEO bonus payments under the STIP and LTIP are fully borne by NWGL and are therefore not paid from NWL customers' money.

The remuneration policy is designed to incentivise performance across all the full range of the Group's strategic themes and not to over-emphasise short-term financial gains.

Service contracts

The service contract of the CEO has a notice period of 12 months from either side. The contract does 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 three 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 Group and receive no payment from the Group.

Approach to remuneration on recruitment

Newly appointed Directors are remunerated in accordance with the policy set out in this report. Service contracts for new Executive Directors have a notice period of six months from either side and for INEDs have a notice period of three 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 Group. 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 Group’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' Report

Directors

The Directors who served during the year, and to the date of signing, are listed on pages 76 to 78 of the Governance Report.

Disclosures provided in the Strategic Report

Future developments which may impact on the Group 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 52.

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 Group. Our approach to stakeholder engagement is set out in the Our Stakeholders section of our Strategic Report on pages 15 to 18, and summarised on our Section 172 Statement on pages 19 to 23.

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 49 to 54.

Statement of corporate governance arrangements

The Group's corporate governance arrangements are described on pages 80 to 92 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 and their agents. During the year, no external costs were associated with these activities, however, Group representatives attended the party conferences of the Labour and Conservative parties.

Energy and Carbon reporting

As part of our PR19 Business Plan we have clearly defined and incentivised performance commitments relating to Net Zero. 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 34.

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 externally assured by Achilles, 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 ending 31 March 2024 reduced to 19.0ktCO2e a reduction of 49.6ktCO2e, significantly outperforming our regulatory PC reduction commitment of 7.9ktCO2e.

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$_2$e		2023/24	2022/23	2019/20	2023/24	2022/23	2019/20
Scope 1	Direct emissions from burning of fuels	37.9	38.3	28.9	1.8	8.7	28.9
	Process and fugitive emissions	28.7	29.2	28.8	28.7	29.2	28.8
	Transport in company owned/leased vehicles	6.1	7.5	8.3	6.1	7.5	8.3
Scope 2	Purchased electricity	72.0	64.9	86.9	-	-	-
Scope 3	Public transport and travel in private vehicles	0.9	0.4	0.9	0.9	0.4	0.9
	Outsourced activities	1.8	1.8	2.1	1.8	1.8	2.1
	Electricity transmission and distribution	6.2	5.9	7.4	-	-	-
Gross operational emissions		153.6	148.0	163.3	39.3	47.6	69.0
Exports	Renewable electricity generated and exported	(0.2)	(0.1)	(0.2)	(0.3)	(0.3)	(0.4)
	Biomethane generated and exported	(20.0)	(23.9)	(15.4)	(20.0)	(23.9)	-
Net operational emissions		133.4	124.0	147.7	19.0	23.4	68.6

In 2023/24 the Group used 583GWh of energy, compared to 530GWh in the baseline year of 2019/20, including:

- 345GWh of grid-supplied electricity used for pumping, treatment and support functions (2019/20: 340GWh);
- 198GWh of natural gas used for treatment and support functions (2019/20: 148GWh);
- 33GWh of road fuels used (2019/20: 38GWh).

Excluded from the above data is biogas produced by the Group and used on-site, which totalled 39MWh in 2023/24 (2019/20: 53MWh).

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		
$ktCO_2e/Ml$	2023/24	2022/23	2019/20	2023/24	2022/23	2019/20
CO2e per Ml of water	121	110	144	3	3	2
CO2e per Ml of sewage treated (flow to full treatment)	191	287	253	61	116	155
CO2e per Ml of sewage treated (water distribution input)	515	507	517	165	205	316

During the next year we will be publishing a comprehensive emissions inventory and updated Net Zero strategy.

Directors' indemnification

The Group has maintained Directors' and Officers' (D&O) insurance cover throughout the year to 31 March 2024, 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 Group'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 Group's auditor is aware of that information.

Auditor

Pursuant to s487 of the Companies Act 2006, Deloitte LLP is deemed to be re-appointed as the Group's auditor for the ensuing year.

Financial statements preparation and going concern

The Directors confirm that, in their opinion, the Group 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 Group at the balance sheet date and financial performance, which is in line with expectations and reviewed at each Board meeting, most recently in April 2024;
- the key financial ratios over the next 12 month planning horizon, as reflected in investment grade credit ratings;
- £350m of proceeds from new debt issuance, received in April 2024, which also satisfies the net current liabilities position;
- the fact that the Group has in place £450m of committed bank facilities as back up liquidity, maturing in December 2025, of which £355m was undrawn at 31 March 2024, and has initiated discussions to replace these facilities upon maturity;
- the Treasury Strategy approved by the Board in April 2022 and the £6bn EMTN programme, of which £1.1bn has been utilised to date, which enables the Group to raise new financing in a timely manner as required;
- the c.£400m of additional equity investment identified in our PR24 Business Plan; and
- the Group's formal governance and risk management arrangements which are monitored by the Audit Committee, R&CSC and Board.

The Board has decided to wait until after the DD to understand the implications for the business in respect of additional equity. If additional equity investment is not made in the next 12 months, the Group would utilise its existing EMTN programme to access the debt capital markets and support its ongoing activities.

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 during the price review period, placing pressure on credit ratings. 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 year, particularly higher operating and capital costs. The longer-term view beyond a year 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 forecasts of investment requirements for the 2025-35 period and beyond, consistent with our long-term strategy. This is still subject to review and challenge by Ofwat in its price reviews and so is uncertain, however, these forecasts 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 Group 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 eleven years to March 2035 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 2035 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 Group at the balance sheet date and the fact that the Group has a £450m committed bank facility as back up liquidity, of which £355m was undrawn at 31 March 2024, maturing in December 2025 with the intention of extending until 2030 in due course, and a further of £350m new debt which was received after the balance sheet date;
- the Treasury Strategy approved by the Board in April 2022 and the subsequent establishment of a £6bn EMTN programme which enables the Group to raise new financing in a timely manner as required;
- the key financial ratios over the planning horizon of the Group's financial forecast to March 2029 and extended forecast to March 2035, as reflected in investment grade credit ratings;
- the submitted PR24 business plan, including plans to address both the deliverability challenge and 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 Group and the mitigating controls, as described on pages 64 to 71, 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 Group's financial resilience.

To support the Directors in their assessment of viability, the Audit Committee carried out a thorough review process.
This included discussing and approving appropriate updates to the Board approved plan to reflect latest economic projections, in particular inflation assumptions and discussing an appropriate forward testing period. This concluded that the base forward plan should be updated to reflect the latest inflation forecasts and our updated PR24 business plan, published on our websites in January 2024.

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 Group'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 eleven years to March 2035 to assess the viability of the Group.
This period has been chosen to align with the business planning process for the regulatory price review period to March 2025, the next price review period to March 2030 and forecasts for the following price review to March 2035, which are consistent with our long-term strategy. 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 two price reviews which include a sufficient rate of return to enable the Company to finance its functions. Whilst the investment horizon in the sector is around 20 years, following the concept of asset and liability matching, the Board considered that 11 years is a long-term and pragmatic period over which reasonable judgements about the future can be made.

The financial forecast has been stress tested under a number of severe adverse scenarios linked to the Group's principal risks. The scenarios were selected after considering the principal risks and uncertainties facing the Group 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 consistent with its Licence, 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 which, without mitigation, could result in a credit rating downgrade, though still at investment grade.	Strong cost management Efficient financing Engagement with rating agencies Board's dividend policy Additional 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	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade and potential dividend lock-up, though still at investment grade.	Strong cost management Efficient financing Engagement with rating agencies Board's dividend policy Additional equity raising
3	Defined benefit pension scheme deficit increases impacting credit ratios.	Regulatory and political changes	Additional £100m deficit	No material impact on gearing or credit ratios..	None required
4	Higher operating costs, reflecting costs of delivering service levels to customers and the environment.	Customer and stakeholder trust and confidence Water/wastewater service failure Supply chain failure	10% increase in current planned spend	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade and potential dividend lock-up, though still at investment grade.	Strong cost management Outcome performance focus Efficient financing Engagement with rating agencies Board's dividend policy Additional equity raising
5	Higher capital costs, reflecting input cost pressures and maintaining asset health.	Asset health deterioration Effect of climate change Regulatory and political changes Financial performance	10% increase in current planned investment	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade, though still at investment grade.	

Ref	Stress test	Principal Risk	Scenarios	Outcome	Mitigation
6	Higher totex costs.	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	Combination of scenarios 4 and 5	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade and potential dividend lock-up, though still at investment grade.	Strong cost management Outcome performance focus Efficient financing Engagement with rating agencies Board's dividend policy Additional equity raising
7	Impact of incident crystallising one of the principal risks identified on pages 66 to 71.	Water/wastewater service failure	One off impact of up to £50m	No material impact on gearing or credit ratios. Reputational impact could affect stakeholder views of the business over longer term.	None required (Outcome performance focus maintained)
8	Regulatory penalty for poor performance or non-compliance with obligations	Health & safety	One off penalty of up to 10% of regulated revenue	No material impact on gearing or credit ratios. Reputational impact could affect stakeholder views of the business over longer term.	None required (Outcome performance focus maintained)
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 gearing or credit ratios	None required
10	Net ODI penalty; significant penalty in one year due to failures to meet regulatory PCs.	Water/wastewater service failure Supply chain failure Asset health deterioration Effect of climate change	3% of RoRE (c.£84m)	No material impact on gearing or credit ratios	None required (Outcome performance focus maintained)
11	Net ODI penalty; sustained under-performance over period.	Water/wastewater service failure Supply chain failure Asset health deterioration Effect of climate change	1% of RoRE each year	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade, though still at investment grade.	Outcome performance focus Engagement with rating agencies Board's dividend policy Additional equity raising

Ref	Stress test	Principal Risk	Scenarios	Outcome	Mitigation
12	Uncertainty in debt markets restricts availability of new funding	Funding and liquidity	Unable to raise new debt for two years.	Inability to raise new finance at a reasonable rate (see scenario 2).	Alternative financing approaches
13	Adverse outcome of PR24 compared to base plan assumptions	Regulatory and political changes	Lower revenue allowance than base plan assumption to deliver the same level of obligations and investment	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade, though still at investment grade. Current shareholders may not see the business as a suitable investment forcing consideration of new equity or ultimately equity shortfall.	DD response and option to refer to CMA.
14	Combined impact of adverse economic movements		Scenarios 1, and 2	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade and potential dividend lock-up, though still at investment grade.	Strong cost management Efficient financing Engagement with rating agencies Board's dividend policy Additional equity raising
15	Combined impact of adverse company performance		Scenarios 6, 8 and 10	Increased gearing and lower interest cover which, without mitigation, could result in a credit rating downgrade and potential dividend lock-up, though still at investment grade.	Strong cost management Outcome performance focus Efficient financing Engagement with rating agencies Board's dividend policy Additional equity raising

The baseline plan is compatible with retaining the Group's investment grade credit ratings.
None of the stress test scenarios undermined the Group's long term financial resilience. However, certain scenarios, specifically higher operating and capital costs or a substantial increase in the cost of raising new finance, indicated a risk of a credit rating downgrade and potential dividend lock up, though still at investment grade. 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 Group's investment grade credit rating or liquidity position at risk, the Board would seek to take mitigating actions. This includes:

- **Strong cost management** - additional controls on discretionary costs and phasing of capital expenditure, taking care not to impact on service levels to customers;
- **Outcome performance focus** - ongoing focus on delivering regulatory performance commitments to benefit customers and the environment and generate net rewards/avoid penalties;
- **Efficient financing** - flexible and efficient financing of new debt to minimise interest charges;
- **Alternative financing approaches** – if normal sources of financing are unavailable, consider alternative approaches, including extending revolving credit facilities or short term shareholder finance;
- **Engagement with rating agencies** - maintain open engagement with rating agencies to allow informed, holistic assessments of credit quality to be made;
- **DD response and option to refer to CMA** – continued engagement through the PR24 regulatory process, including consideration of option to refer to CMA if outcome is not acceptable.
- **Board's dividend policy** - application of the Board's dividend policy, which allows equity to be retained in NWL if required; and
- **Additional equity** - discussions with shareholders in respect of any equity raising that may be required.

The business has not required the additional equity injection up to this point, but this is likely to be required in the near future subject to the Ofwat Draft Determinations for PR24.

As previously explained, almost all future scenarios require additional equity investment to be raised to support the financeability of the business. This was discussed with our shareholders and they set out their views in NWL's PR24 business plan. New equity has not been required to date to maintain credit metrics. Moreover, given the uncertainty of the PR24 process and concerns over the risk/return balance as well as ongoing changes to the investment requirements driven by Government and other regulators, NWL's Board has decided to wait until after the DD to understand the implications for the business.

All equity investors have choices about where they invest their capital and the market for that investment is global it will be essential for the risk and return balance to be fair and competitive to attract that investment. This issue is only elevated by the challenges with the external sentiment of the sector and the financial resilience of other companies.

Assurance

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

Fair, balanced and understandable

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Group'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 Group Financial Statements in accordance with United Kingdom adopted international accounting standards. The Directors have chosen to prepare the parent company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom 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.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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,
10 July 2024

Registered office
Northumbria House
Abbey Road
Pity Me
Durham
DH1 5FJ

Registered in England and Wales
Registered no: 02366703

Consolidated Financial Statements

Consolidated Income Statement
for the year ended 31 March 2024

	Note	2024 £'m	2023 £'m
Continuing operations			
Revenue	2	918.9	861.2
Operating costs	3	(685.7)	(638.7)
Operating profit		**233.2**	**222.5**
Finance costs	7	(236.8)	(278.2)
Finance income	7	2.4	2.1
Net finance costs		(234.4)	(276.1)
Loss before taxation		**(1.2)**	**(53.6)**
Taxation	8a	(0.5)	21.5
Loss for the year attributable to the shareholder of the Company		**(1.7)**	**(32.1)**

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2024

	Note	2024 £'m	2023 £'m
Loss for the year		**(1.7)**	(32.1)
Items that will not be reclassified subsequently to the income statement:			
Actuarial loss	25	(53.6)	(39.5)
Current tax related to company contributions to defined benefit pension scheme	8(b)	12.7	5.6
Deferred tax related to company contributions to defined benefit pension scheme	8(b)	(12.9)	(7.4)
Deferred tax related to actuarial losses on pension scheme	8(b)	13.6	9.9
Items that may be reclassified subsequently to income statement:			
Loss on cash flow hedges taken to equity		(2.2)	(3.6)
Deferred tax on cash flow hedge loss	8(b)	0.6	0.9
Other comprehensive expense		**(41.8)**	**(34.1)**
Total comprehensive expense for the year attributable to the shareholder of the Company		**(43.5)**	**(66.2)**

Consolidated Balance Sheet

at 31 March 2024 (registered number 02366703)

	Note	2024 £'m	2023 £'m
Non-current assets			
Intangible assets	10	55.2	55.0
Property, plant and equipment	11	5,307.2	4,998.2
Financial investments	12	11.6	11.5
Pension asset	25	-	17.9
		5,374.0	**5,082.6**
Current assets			
Inventories	13	10.3	8.0
Trade and other receivables	14	264.3	246.5
Cash and cash equivalents	22	50.2	156.0
		324.8	**410.5**
Total assets		**5,698.8**	**5,493.1**
Current liabilities			
Trade and other payables	15	(270.0)	(222.7)
Borrowings	16	(214.3)	(211.8)
Provisions	18	(0.1)	(0.1)
		(484.4)	**(434.6)**
Non-current liabilities			
Borrowings	16	(3,864.0)	(3,645.0)
Provisions	18	(3.8)	(3.8)
Deferred tax liabilities	8(d)	(591.1)	(604.0)
Pension liability	25	(16.2)	-
Derivatives	20	(158.7)	(147.6)
Grants and deferred income	19	(521.0)	(489.2)
		(5,154.8)	**(4,889.6)**
Total liabilities		**(5,639.2)**	**(5,324.2)**
Net assets		**59.6**	**168.9**
Capital and reserves			
Share capital	21	122.7	122.7
Cash flow hedge reserve		5.4	7.0
Profit and loss account		(68.5)	39.2
Equity attributable to the shareholder of the Company		**59.6**	**168.9**

Approved by the Board of Directors on 10 July 2024 and signed on their behalf by: **H Mottram**

Consolidated Statement of Changes in Equity
for the year ended 31 March 2024

	Share capital £'m	Cash flow hedge reserve £'m	Retained earnings £'m	Total equity £'m
At 1 April 2022	122.7	9.7	213.5	345.9
Loss for the year	-	-	(32.1)	(32.1)
Other comprehensive expense	-	(2.7)	(31.4)	(34.1)
Total comprehensive expense	-	(2.7)	(63.5)	(66.2)
Dividends	-	-	(110.8)	(110.8)
At 31 March 2023	122.7	7.0	39.2	168.9
Loss for the year	-	-	(1.7)	(1.7)
Other comprehensive expense	-	(1.6)	(40.2)	(41.8)
Total comprehensive expense for the year	-	(1.6)	(41.9)	(43.5)
Dividends	-	-	(65.8)	(65.8)
At 31 March 2024	**122.7**	**5.4**	**(68.5)**	**59.6**

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 Group's defined benefit pension scheme taken directly to equity.

Consolidated Cash Flow Statement

for the year ended 31 March 2024

	Note	2024 £'m	2023 £'m
Operating activities			
Reconciliation of profit before interest to net cash flows from operating activities			
Profit before interest		233.2	222.4
Depreciation and impairment charges		156.7	151.0
Other non-cash charges and credits		(6.4)	(14.9)
Other Provision Movement		(0.4)	(0.4)
Pension charge less pension contributions		(18.7)	(39.0)
Capital grants received		14.1	15.4
Decrease / (increase) in inventories		(2.3)	(1.8)
Decrease / (increase) in trade and other receivables		(35.2)	(11.0)
(Decrease) / increase in trade and other payables		17.5	15.0
Cash generated from operations		**358.5**	**336.7**
Interest paid		(141.8)	(122.9)
Income taxes paid		17.9	8.0
Net cash flows from operating activities		**234.6**	**221.8**
Investing activities			
Interest received		2.3	2.3
Proceeds on disposal of property, plant and equipment		1.2	6.2
Movement in financial investment		(0.1)	0.1
Purchase of property, plant and equipment and intangible assets		(396.6)	(282.3)
Financing activities		**(393.2)**	**(273.7)**
Net movement in internal borrowings			
New borrowings		154.2	742.1
Net movement in internal borrowings		25.5	(25.1)
Net movements in Revolving Credit Facility		95.0	(167.0)
Net movement in overdraft		(122.6)	83.2
Dividends paid to equity shareholders		(65.8)	(110.8)
Repayment of borrowings		(32.9)	(381.9)
Payment of principal in respect of leases		(0.6)	(1.8)
Net cash flows generated from / (used in) financing activities		**52.8**	**138.7**
Net (decrease) / increase in cash and cash equivalents in the period		**(105.8)**	**86.8**
Cash and cash equivalents at start of year	22	156.0	69.2
Cash and cash equivalents at end of year		**50.2**	**156.0**
Cash and cash equivalents	22	50.2	156.0
Total cash, cash equivalents and short term cash deposits		**50.2**	**156.0**

Additional cash flow information is included in note 22.

Notes to the Financial Statements

for the year ended 31 March 2024

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 123**. The nature of the Company's operations and its principal activities are set out in the Strategic Report on **page 12**.

Following the introduction of the additional ABF entities to the structure, NWL has produced consolidated accounts under IFRS for the first time. This provides users with a clearer representation of the NWL Group of companies, including the net impact of the ABF arrangement and Kielder securitisation transaction. The structure of the Group included within the consolidated statements is presented on **page 151**.

NWL is a partner in Northumbrian Water Company 1 Scottish Limited Partnership and Northumbrian Water Company 2 Scottish Limited Partnership, registered in Scotland. These entities are included in the consolidated accounts therefore the Company has taken advantage of the exemption conferred by Regulation 7 of The Partnership (Accounts) Regulations 2008 from the requirements of Regulations 4 to 6.

The consolidated 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. The Group does not use supplier financing arrangements.

(a) Basis of consolidation

The consolidated financial statements have been prepared under the historical cost convention as modified by financial instruments recognised at fair value. The consolidated financial statements include the Company and its subsidiary undertakings.

The results of subsidiaries acquired during the period are included from the date of their acquisition. The results of subsidiaries disposed of during the period are included to the date of their disposal. Inter-segment revenue and profits are eliminated fully on consolidation.

Where necessary, adjustments are made to bring the accounting policies used under relevant local GAAP in the individual financial statements of the Company, subsidiaries and jointly controlled entities into line with those used by the Group under IFRS.

(b) Going concern

The Financial Statements have been prepared on a going concern basis, having considered the principal risks and uncertainties, which assumes that the Group will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 March 2024, the Group had net current liabilities of £159.6m (2023: £24.1m).

The Directors have reviewed cash flow requirements and other factors, in particular the £450m committed bank facility, which was £355m undrawn at 31 March 2024, and £350m of new loans which were received in April 2024 after the balance sheet date, as described in the going concern statement on **page 116** of the Directors' Report. Accordingly, the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

(c) 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 Group'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 Group's networks, comprising infrastructure charges, new connection charges, requisitioned mains and sewers and adopted assets, the Group 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(g).

For other contributions to capital investment, most significantly mains and sewer diversions, the Group 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.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

(d) 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 Group 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.

(e) 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 Group, 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 Group 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(h)), 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 11.

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

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

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

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

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

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

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

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

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

(f) Financial investments
Financial investments comprise a guaranteed investment contract (GIC). The GIC represents cash held on a long term deposit, related to the Kielder securitisation. The GIC is assessed at each balance sheet date, although is very low risk due to the securitisation structure, with any expected credit loss taken to the income statement in the year (note 12).

(g) 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 Group'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(c).

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.

(h) Leases
The Group 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 Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

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

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

The lease liability is presented within Borrowings in the Balance sheet and as a separate line within note 16.

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 Group 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 Group 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.

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

(j) Pension costs
The Company is the principal employer of the NWPS, a defined benefit scheme which is closed to future accrual.

The present value of the defined benefit obligation is determined using the projected unit credit method, which attributes entitlement to benefits to the current and prior periods 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 and scheme expenses are 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 Group participates in a defined contribution pension arrangement. The costs of the defined contribution scheme are charged to the income statement in the period they arise.

(k) 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.

(l) 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.

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

(n) Derivative financial instruments
The Group utilises interest and inflation rate swaps, forward power contracts, power purchase agreements and forward foreign 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 Group in line with the NWGL 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. An accounting policy choice is available with regards to applying the hedge accounting requirements of IFRS 9 or retaining the requirements of IAS 39. The Group has elected to retain the requirements of IAS 39.

Derivative financial instruments are recognised and subsequently 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 Group 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 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.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(o) 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 measure of inflation, 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.

(p) Trade and other receivables
Trade receivables are measured at fair value on initial recognition. Trade receivables are initially recorded at transaction price and subsequently measured at amortised cost, resulting in recognition at nominal value less an allowance for any doubtful debts.

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the trade receivable. In calculating the expected loss, the Group applies expected recovery rates, based on actual historical cash performance and forward-looking information.

Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect. Situations where this may arise include where the customer cannot be traced, the customer has insufficient assets to claim against or where the value of the debt makes it uneconomic to pursue.

(q) 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.

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

In the process of applying the accounting policies, the Group 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 usage would change revenue by £10.2m;
- 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 25; and
- the doubtful debt provision, reported in note 14, which is determined by estimating expected credit losses based on the Group'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 Group'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 £10.5m.

Whilst management have acknowledged the risks posed by climate change, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the Financial Statements for the year ended 31 March 2024.

(s) New accounting policies and future requirements

The following accounting standards, interpretations and amendments have been adopted by the Group in the year ended 31 March 2024:

- IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction; and
- IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules

At the date of signing these financial statements, there are no further standards or interpretations in issue but not yet effective which are expected to have a material impact on the Group.

(t) De-recognition of financial assets and liabilities

A financial asset or liability is generally de-recognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

2. Revenue and Segmental Information

The Directors consider that the Group 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 Group, 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 Group.

	2024			2023		
	Household £'m	Non household £'m	Total £'m	Household £'m	Non household £'m	Total £'m
Wholesale water	362.4	97.3	459.7	337.5	91.5	429.0
Wholesale wastewater	226.6	83.8	310.4	207.1	76.5	283.6
Retail	58.1	-	58.1	61.3	-	61.3
	647.1	**181.1**	828.2	**605.9**	**168.0**	**773.9**
Other appointed business			38.5			39.8
Total appointed business			**866.7**			**813.7**
Non appointed business			52.2			47.5
Total revenue			**918.9**			**861.2**

3. Operating Costs

	Note	2024 £'m	2023 £'m
Materials and consumables		37.0	37.4
Employee costs	6	169.8	150.5
Pension past service credit	25	-	(13.0)
Own work capitalised		(57.1)	(53.3)
Costs of research and development		0.9	0.5
Bad debt charge		13.2	11.8
Inventories recognised as an expense		3.9	3.6
Other operating costs		362.4	352.0
Depreciation of property, plant and equipment		147.6	142.1
Amortisation of intangible assets		9.1	8.9
Profit on disposal of property, plant and equipment		(1.1)	(1.8)
Total operating costs		**685.7**	**638.7**

Other operating costs include hired and contracted services, power, debt management, rates and abstraction.

4. Auditor's Remuneration

	2024 £'m	2023 £'m
Fees payable for the audit of parent Company and consolidated financial statements	0.4	0.3
Other fees to auditor:		
Audit of subsidiaries	0.1	-
Regulatory audit	0.1	0.1
Other non-audit services	0.1	0.2
	0.7	**0.6**

Regulatory audit fees relate to 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.

Non-audit services were incurred in relation to the annual update of the EMTN programme and assurance of third party contracts.

5. Directors' Emoluments

(a) Directors' remuneration

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

	2024 £'000	2023 £'000
Emoluments (including benefits in kind)	1,171	1,107

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 Group 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 106**.

None of the Directors serving during the year ended 31 March 2024 were members of a pension scheme where the Group makes contributions towards the cost.

The Directors' remuneration policy and a detailed report showing total remuneration for each Director, for the year to 31 March 2024, are set out in the Remuneration Committee Report on **pages 105 to 108**.

(b) Highest paid Director

The amounts for remuneration shown in note 5(a) include the following in respect of the highest paid Director:

	2024 £'000	2023 £'000
Emoluments (including benefits in kind)	842	781

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 these have been paid in full by NWGL, as explained in the Remuneration Committee Report on **page 106**.

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.

6. Employee Information

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

	2024 £'m	2023 £'m
Gross costs charged to the profit and loss account:		
Wages and salaries	96.5	86.0
Social security costs	9.9	9.4
Other pensions costs	13.7	13.5
	120.1	**108.9**
Costs recharged to other Group companies		
Wages and salaries	1.7	2.2
	1.7	**2.2**
Net costs charged to the profit and loss account		
Wages and salaries	94.8	83.8
Social security costs	9.9	9.4
Other pensions costs	13.7	13.5
	118.4	**106.7**
Costs charged to capital schemes		
Wages and salaries	41.3	35.4
Social security costs	4.2	4.6
Other pensions costs	5.9	6.0
	51.4	**46.0**
Total employee costs	**169.8**	**152.7**

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

	2024	2023
Water and waste water services	1,352	1,259
Customer services and meter reading	726	676
Other regulated activities	1,106	1,081
Non regulated activities	86	87
	3,270	**3,103**

7. Net Finance Costs

	2024 £'m	2023 £'m
Finance costs payable:		
Bank overdrafts and loans	143.1	124.4
Receivable in respect of derivatives	(12.5)	(8.2)
Payable to other Group company	1.6	1.1
Amortisation of discount, fees, loan issue costs and other financing items	4.5	4.4
Accretion on index linked bonds	99.4	142.0
Interest cost on pension plan obligations	(1.3)	(0.8)
Obligations under leases	7.2	5.9
	242.0	**268.8**
Less amounts capitalised on qualifying assets	(14.1)	(10.1)
	227.9	**258.7**
Fair value losses on derivative financial instruments	8.9	19.5
Total finance costs payable	**236.8**	**278.2**
Finance income receivable:		
Bank deposits	(2.4)	(2.0)
Receivable from Group companies	-	(0.1)
Total finance income receivable	**(2.4)**	**(2.1)**
Net finance costs payable	**234.4**	**276.1**

8. Taxation

(a) Tax on (loss) / profit

	2024 £'m	2023 £'m
Current tax:		
Adjustments in respect of prior periods	(0.2)	(2.1)
Payable / (receivable) in respect of group relief for the year	13.4	5.5
Adjustments in respect of prior period group relief	(1.0)	**0.4**
Total current tax	**12.2**	**3.9**
Deferred tax:		
Origination and reversal of temporary differences in the year at 25% (2023: 25%)	(12.2)	(25.1)
Adjustments in respect of prior periods	0.5	(0.3)
Total deferred tax	**(11.7)**	**(25.4)**
Tax (credit) / charge in the income statement	**0.5**	**(21.5)**

The rate of UK corporation tax for the current year is 25%.

In addition to the Group's tax charge of £0.5m (2023: £21.5m credit) to the income statement, tax of £14.0m (2023: £9.0m) has been credited directly to the statement of comprehensive income. The current tax credit for the year is £0.5m (made up of a charge of £12.2m in the income statement and a credit of £12.7m in other comprehensive income). The deferred tax credit for the year is £11.7m to the income statement and £1.3m to the statement of comprehensive income.

Tax losses arise in the current year as a result of allowances available from full expensing of qualifying capital expenditure. The losses have been provisionally surrendered as group/consortium relief to other group companies and related parties, for which payment is receivable at the full rate of current tax. Brought forward losses have been utilised up to the £5m unrestricted allowance with any remaining losses being carried forward to be set off against future taxable profits.

Prior year items mainly relate to revisions to tax relief for capital expenditure.

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

	2024 £'m	2023 £'m
Current tax		
Company contributions to defined benefit pension scheme	(12.7)	(5.6)
Total current tax credit	**(12.7)**	**(5.6)**
Deferred tax:		
Company contributions to defined benefit pension scheme	12.9	7.4
Actuarial losses on pension scheme	(13.6)	(9.9)
Financial instruments	(0.6)	(0.9)
Total deferred tax	**(1.3)**	**(3.4)**
Tax credit in the statement of comprehensive income	**(14.0)**	**(9.0)**

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

	2024 £'m	2023 £'m
Loss before tax	**(1.2)**	**(53.5)**
Loss multiplied by standard rate of corporation tax of 25% (2023: 19%)	(0.3)	(10.2)
Effects of:		
Expenses not deductible for tax purposes	0.4	-
Non-taxable gains and amortisation of capital sums	-	(0.3)
Depreciation in respect of non-qualifying items	1.4	0.9
Capital allowances super deductions	-	(3.9)
Current tax on pension contributions moved to OCI	12.7	5.6
Deferred tax on pension contributions moved to OCI	(13.0)	(7.4)
Deferred tax movement not at current tax rate for the year	-	(4.3)
Adjustments in respect of prior periods	(0.7)	(1.9)
Transfer pricing adjustments	(1.1)	(0.7)
Balancing payment payable	1.1	0.7
Total tax (credit) / charge	**0.5**	**(21.5)**

(d) Deferred tax

	Accelerated tax depreciation £'m	Deferred income £'m	Retirement benefit obligations £'m	Derivatives at fair value £'m	Business combinations £'m	Tax losses £'m	Other £'m	Total £'m
At 1 April 2022	**732.4**	**(87.5)**	**4.2**	**(30.7)**	**7.2**	**(8.1)**	**15.8**	**633.3**
Charge / (credit) in the income statement	31.8	(9.3)	2.6	(5.3)	(0.2)	(47.6)	2.1	(25.9)
Credit in other comprehensive income	-	-	(2.5)	(0.9)	-	-	-	(3.4)
At 31 March 2023	**764.2**	**(96.8)**	**4.3**	**(36.9)**	**7.0**	**(55.7)**	**17.9**	**604.0**
Charge / (credit) in the income statement	(41.6)	(8.0)	0.5	(2.2)	(0.1)	37.2	2.6	(11.6)
Credit in other comprehensive income	-	-	(0.7)	(0.6)	-	-	-	(1.3)
At 31 March 2024	**722.6**	**(104.8)**	**4.1**	**(39.7)**	**6.9**	**(18.5)**	**20.5**	**591.1**

'Other' includes deferred tax liabilities of £21.0m (2023: £18.1m) in respect of capitalised interest and £1.5m (2023: £2.0m) in respect of rolled over capital gains, and a deferred tax asset of £1.6m (2023: £1.7m) in respect of provisions and other small deferred tax assets of £0.4m (2023: £0.5m).

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

As a result of the adoption of the amendment to IAS 12 in relation to deferred tax assets and liabilities arising from a single transaction, the Group has provided further disclosure below to show the assets and liabilities to which the depreciation in excess of capital allowances relate.

	Property, plant and equipment £'m	Right-of-use assets £'m	Lease liabilities £'m	Accelerated tax depreciation £'m
At 1 April 2023	**759.6**	**0.5**	**4.1**	**764.2**
(Credit) / charge in the income statement	(41.9)	-	0.3	(41.6)
At 31 March 2024	**717.7**	**0.5**	**4.4**	**722.6**

(e) Factors that may affect future tax charges
The Group 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 Company expects this trend to continue throughout the following regulatory review period.

The full expensing regime for capital allowances was made permanent in Finance Act 2024. As a result the Group expects to continue to generate a tax loss over the remainder of the 2020-25 regulatory review period, as well as throughout the following regulatory period review. The Group intends to limit the level of tax losses arising by way of disclaiming capital allowances, however, the Group will utilise brought forward tax losses to the extent that the group does not exceed the £5 million annual allowance of unrestricted profit.

The Organisation for Economic Co-operation and Developments (OECD) released Pillar Two model rules in December 2021 introducing a global minimum tax rate of 15% to address the tax concerns about uneven profit distribution and tax contributions of large multinational corporations. In December 2022, the OECD released transitional safe harbour rules as a short-term measure to minimise the compliance burden for lower risk jurisdictions.

The Pillar Two top-up tax rules were substantially enacted in the UK in 2023 with application from 1 January 2024. The Group does not expect to be subject to the top-up tax in relation to its operations in any of the jurisdictions in which it operates because they fall within the OECD transitional safe harbour rules which have also been adopted by the UK. The Group has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and will account for it as current tax when it is incurred.

9. Dividends

	2024 £'m	2023 £'m
Equity:		
Dividends paid:		
Final dividend paid 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
Interim dividend paid for the year ended 31 March 2024 of 33.02p (year ended 31 March 2023: 47.17p) per share on an aggregated basis	40.5	55.4
Dividends paid in the year	**65.8**	**110.8**
Dividends proposed:		
Final dividend proposed for the year ended 31 March 2024 of 32.94p (year ended 31 March 2023: 20.63p) per share on an aggregated basis	**40.4**	**25.3**

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 its 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

For the year ended 31 March 2024 the Board approved payment of an interim dividend of £40.5m and, after the balance sheet date, a final dividend of £40.4m. This equates to a regulatory dividend yield of 5.0% in respect of 2023/24. 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.

10. Intangible Assets

	Note	Software £'m	Assets in development £'m	Total £'m
Cost:				
At 1 April 2023		137.3	6.3	143.6
Additions		-	9.3	9.3
Transfers		4.9	(4.9)	-
At 31 March 2024		**142.2**	**10.7**	**152.9**
Amortisation:				
At 1 April 2023		88.6	-	88.6
Charge for the year		9.1	-	9.1
At 31 March 2024		**97.7**	**-**	**97.7**
Carrying value:				
At 31 March 2024		**44.5**	**10.7**	**55.2**
At 31 March 2023		48.7	6.3	55.0

Cumulative borrowing costs capitalised in the cost of intangible assets amount to £4.4m (2023: £4.1m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.76% (2023: 4.04%).

11. 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 2023	164.8	3,297.9	3,588.4	257.3	289.6	7,598.0
Additions / adjustments	-	23.0	0.9	-	432.8	456.7
Schemes commissioned	3.4	113.8	133.7	5.4	(256.3)	-
Reclassifications	-	-	-	-	-	-
Disposals	-	(2.1)	(3.3)	-	-	(5.4)
At 31 March 2024	**168.2**	**3,432.6**	**3,719.7**	**262.7**	**466.1**	**8,049.3**
Depreciation:						
At 1 April 2023	75.2	515.9	1,790.4	218.3	-	2,599.8
Charge for the year	3.8	31.6	104.6	7.6	-	147.6
Reclassifications	-	-	-	-	-	-
Disposals	-	(2.1)	(3.2)	-	-	(5.3)
At 31 March 2024	**79.0**	**545.4**	**1,891.8**	**225.9**	**-**	**2,742.1**
Carrying value:						
At 31 March 2024	**89.2**	**2,887.2**	**1,827.9**	**36.8**	**466.1**	**5,307.2**
At 31 March 2023	89.6	2,782.0	1,798.0	39.0	289.6	4,998.2
Right of use assets included above:						
Additions in the year	-	-	4.3	-	-	4.3
Depreciation charge for the year	0.1	0.5	2.8	-	-	3.4
Carrying value at 31 March 2024	**2.0**	**41.3**	**13.8**	**-**	**-**	**57.1**
Carrying value at 31 March 2023	2.1	41.8	12.3	-	-	56.2

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 £97.4m (2023: £83.6m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.76% (2023: 4.04%).

12. Financial investments

(a) Financial investments

	2024 £'m	2023 £'m
At 31 March	11.6	11.5

The financial investment comprises a guaranteed investment contract representing cash held on long-term deposit relating to the Kielder securitisation.

(b) Investments in subsidiaries

The Company's interests in subsidiaries which are included in the consolidated financial statements at 31 March 2024 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	Financing company
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
Northumbrian Water Company 1 Limited	Scotland	Ordinary shares of £1	100	General Partner
Northumbrian Water Company 2 Limited	Scotland	Ordinary shares of £1	100	General Partner
Northumbrian Water Company 3 Limited	Scotland	Ordinary shares of £1	100	Financing company

The registered office of the subsidiaries operating in England and Wales is Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ. Holdings are direct other than Reiver Finance Limited which is indirect.

During the year, NWL entered an ABF arrangement in respect of its defined benefit pension scheme. This involved the incorporation of three new direct subsidiaries, Northumbrian Water Company 1 Limited, Northumbrian Water Company 2 Limited and Northumbrian Water Company 3 Limited, and two Scottish limited partnerships, all registered in Scotland at 10/1 Capella Building, 60 York Street, Glasgow, United Kingdom, G2 8JX.

The Company is a partner in Northumbrian Water Company 1 Scottish Limited Partnership and Northumbrian Water Company 2 Scottish Limited Partnership, registered in Scotland.

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.

13. Inventories

	2024 £'m	2023 £'m
Raw materials and consumables	**10.3**	8.0

The cost of inventories recognised as an expense during the year in respect of continuing operations was £3.9m (2023: £3.6m).

14. Trade and other Receivables

	2024 £'m	2023 £'m
Trade receivables	221.3	212.7
Doubtful debt provision	(86.2)	(92.3)
Income tax recoverable	0.2	19.6
Amounts owed by other Group companies	4.5	3.4
Other receivables	20.3	8.4
Prepayments	6.7	4.7
Interest prepayments	1.9	1.8
Accrued income	95.6	88.2
	264.3	**246.5**

Amounts owed by other Group companies includes £0.7m (2023: £nil) in respect of tax losses surrendered by the Company. The remaining amounts owed by other Group companies include £2.6m due from NWGL (2023: £2.3m) and £1.2m (2023: £1.1m) due from fellow subsidiary companies, which are due on demand with no fixed repayment date and bear no interest.

Other receivables of £20.3m is predominantly made up of VAT amounts receivable of £13.5m and a contractual settlement of £6.5m.

As at 31 March 2024, trade receivables at nominal value of £86.2m (2023: £92.3m) were impaired. Movements in the provision for impairment of trade receivables were as follows:

	£'m
At 1 April 2022	94.2
Charge for the year	11.8
Utilised	(13.7)
At 31 March 2023	92.3
Charge for the year	13.2
Utilised	(19.3)
At 31 March 2024	**86.2**

The analysis of trade receivables overdue but not impaired on a net basis is as follows:

	£'m					
	0-3 months	3-12 months	12-24 months	24-36 months	+36 months	Total
At 31 March 2024	**0.3**	**24.2**	**31.8**	**20.9**	**43.8**	**121.0**
At 31 March 2023	0.5	39.7	24.6	18.0	23.4	106.2

The consideration of forward looking macro-economic factors, as required by IFRS 9, has not materially changed the carrying value of trade receivables.

15. Trade and other payables

	2024 £'m	2023 £'m
Trade payables	52.6	36.2
Amounts owed to other Group companies	1.9	2.9
Taxation and social security	3.7	3.2
Receipts in advance	22.4	23.3
Other payables	15.1	14.1
Deferred income	11.6	11.6
Capital accruals	62.4	37.4
Interest accruals	54.2	49.4
Other accruals	46.1	44.6
	270.0	**222.7**

Included in amounts owed to other Group companies is £nil (2023: £1.3m) payable in respect of tax losses surrendered to the Company. The remaining amount of £1.9m (2023: £1.6m) is owed to NWGL and is due on demand with no fixed repayment date and bears no interest.

Other payables of £15.1m predominantly comprises of retentions and deposits held, provisions and third-party cash collected.

16. Borrowings

	Note	2024 £'m	2023 £'m
Current:			
Bank overdrafts	16(a)	23.4	146.0
Current instalments due on external borrowings	16(a)	128.5	32.3
Current instalments due on internal borrowings	16(b)	58.5	33.0
Current instalments due on leases	17	3.9	0.5
		214.3	**211.8**
Non-current:			
Non-current instalments due on external borrowings	16(a)	3,800.1	3,581.4
Non-current instalments due on leases	17	63.9	63.6
		3,864.0	**3,645.0**

(a) Internal borrowings

Included in internal borrowings is £58.5m (2023: £33.0m) owed to NWGL in respect of an overnight borrowing which incurs interest at a rate of 6.25% (2023: 5.25%).

(b) External borrowings

Bank overdrafts are repayable on demand and bear interest at an average rate of 6.02% during the year.

Loans wholly repayable within five years amount to £1,744.1m (2023: £801.8m).

Loans not wholly repayable within five years amount to £2,207.9m (2023: £2,957.9m) and bear interest rates in the range 1.625% to 6.375%.

The fair value loss on the Company's outstanding interest rate and RPI swaps in the year to 31 March 2024 was £11.1m (2023: loss of £24.8m) in relation to interest rate swaps with a notional principal of £350m (2023: £350m).

All other external borrowings are listed below.

Interest bearing loans and borrowings

	Book value 31 March 2024 £'m
Borrowings comprise the following::	
Overdrafts payable on demand	23.4
Bank loans (principal £759.7m, 2023: £497.4m)	757.6
Eurobonds - due 11 October 2026, 1.625% (principal £300.0m, 2023: £300.0m)	299.3
Eurobonds - due 05 October 2027, 2.375% (principal £300.0m, 2023: £300.0m)	298.8
Eurobonds - due 14 February 2031, 4.5% (principal £350.0m, 2023: £350.0m)	347.0
Eurobonds - due 29 April 2033, 5.625% (principal £350.0m, 2023: £350.0m)	344.9
Eurobonds - due 23 January 2034, 5.8753% (principal £248.0m, 2023: £248.0m)	224.4
Eurobonds - due 28 October 2034, 6.375% (principal £400.0m, 2023: £400.0m)	391.7
Eurobonds - due 23 January 2042, 5.125% (principal £360.0m, 2023: £360.0m)	343.6
Index linked Eurobonds - due 15 July 2036, 2.033% (principal £295.2m, 2023: £270.3m)	295.2
Index linked Eurobonds - due 30 January 2041, 1.6274% (principal £116.8m, 2023: £107.2m)	116.8
Index linked Eurobonds - due 16 July 2049, 1.7118% (principal £193.6m, 2023: £177.6m)	193.6
Index linked Eurobonds - due 16 July 2053, 1.7484% (principal £193.6m, 2023: £177.6m)	193.6
Index linked Private Placement - due 29 October 2039, 0.242% (principal £122.1m, 2023: £117.0m)	122.1
	3,952.0

17. Leases

The Group 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:

	2024 £'m	2023 £'m
Maturity analysis		
Year 1	(7.6)	(7.4)
Year 2	(6.9)	(6.6)
Year 3	(6.5)	(5.9)
Year 4	(5.7)	(5.6)
Year 5	(5.0)	(5.0)
Onwards	(71.7)	(74.6)
	(103.4)	**(105.1)**
Less unearned interest		
Year 1	(3.7)	(6.9)
Year 2	(2.7)	(2.9)
Year 3	(2.6)	(2.6)
Year 4	(2.4)	(2.5)
Year 5	(2.3)	(2.3)
Onwards	(21.9)	(23.8)
	(35.6)	**(41.0)**
	(67.8)	**(64.1)**
Analysed as		
Non-current	(63.9)	(63.6)
Current	(3.9)	(0.5)
	(67.8)	**(64.1)**

18. Provisions

	£'m
At 1 April 2023	3.9
Charged to the profit and loss account in the year	0.1
Utilised during the year	(0.1)
At 31 March 2024	**3.9**
Analysed as:	
Current	0.1
Non-current	3.8
	3.9

In the ordinary course of business, the Group 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 NWL. 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 Group 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.

19. Grants and Deferred Income

	Capital grants and contributions £'m	Total £'m
At 1 April 2023	**489.2**	**489.2**
Additions	38.0	38.0
Amortised during the year	(6.2)	(6.2)
At 31 March 2024	**521.0**	**521.0**

20. Financial instruments

(a) Group strategy and funding risk

The level of capital expenditure which the Group is obliged to incur is such that it cannot be wholly financed by internally generated sources. As a result, the Group must rely upon raising additional finance on a regular basis, to be principally used to fund the long-term assets required in its regulated business. The Group's strategy is to finance such investment by raising medium to long-term debt, to provide a balance sheet match with long-term assets and to fix a major proportion of interest rates. In order to raise this finance efficiently, the Board's aim is to retain a prudent investment grade credit rating. A reduction in the credit rating would likely restrict future sources of funding and increase the associated cost of new borrowing.

(b) Treasury operations

The main purpose of the Group's treasury function is to assess the Group's ongoing capital requirement and to raise funding on a timely basis, taking advantage of any favourable market opportunities. It also invests any surplus funds the Group may have, based upon its forecast requirements and in accordance with the Group's treasury policy. On occasions, derivatives are used as part of this process but the Group's policies prohibit their use for speculation.

(c) Risks arising from the Group's financial instruments

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. All treasury activities are conducted in accordance with these policies.

(d) Liquidity risk

As regards day to day liquidity, the Group's policy is to have available 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 2024, the Group had £355m (2023: £450m) of undrawn committed bank facilities (maturing in 2025).

(e) Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. It borrows at both fixed and variable rates of interest and, accordingly, uses interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations. The Group's policy was refreshed during the year which seeks to ensure NWL has an efficient and flexible funding structure in the context of its risk appetite. This considers the relevant risk exposure for its financing while taking into account the regulatory framework and associated allowances for setting the cost of debt. The revised policy is to have index linked debt form 38% to 50% of the funding structure and floating rate exposures to form 5% to 8% of the capital structure.

At 31 March 2024, 35% (2023: 34%) of the Group's borrowings were on an index linked basis, with variable rate borrowings at 8% (2023: 1%). Index linked borrowings are treated as variable rate debt.

The Group is exposed to the SONIA risk-free rate. The exposures arise on derivatives and non-derivative financial liabilities (e.g. borrowings).

(f) Foreign currency risk
The Group's policy is that any foreign currency exposure in excess of £100k sterling equivalent of a transactional nature, or £3m sterling equivalent of a translation nature, should be covered immediately on identification. Any exposures are covered through the use of forward foreign exchange contracts. At 31 March 2024, the Group had forward foreign exchange contracts of £4.2m (31 March 2023: £4.0m) for the purpose of hedging the foreign currency risk of committed future purchases.

(g) Market price sensitivity
The Group's exposure to market price sensitivity principally comprises interest rate exposures. The Group's policy is to accept a degree of interest rate risk. The following table shows the impact on profit and equity of an increase in the variable cost of borrowing. The range is considered reasonable based on the forecast variable rates of borrowing and all other elements being consistent for the next 12 months and highlights this is not material to the Group.

Increase in basis points	Decrease in profit / equity £'m
Year ended 31 March 2024	
+100	0.2
-100	(0.2)
Year ended 31 March 2023	
+100	0.2
-100	(0.2)

(h) Credit risk
There are no significant concentrations of credit risk within the Group. Management's assessment of the maximum credit risk exposure relating to financial assets is represented by their carrying value as at the balance sheet date. There is no material customer credit risk as no individual customer accounts for a significant proportion of income or debt.

(i) Counterparty risk
The treasury strategy, which is approved by the Board, requires that investments are limited to certain money market and treasury instruments, and that the Group's exposure to any single bank, building society or market is controlled, with maximum deposits allowed with any single counterparty. The investment criteria cover credit rating and asset size, including sovereign and political risk. Current market conditions have resulted in closer monitoring of counterparties.

(j) Capital risk
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy credit ratios in order to support its business and maximise shareholder value.

The Group monitors capital using gearing ratios for the Group and NWL. The Group's policy is to keep the Group gearing (excluding Kielder debt), which is measured per the financial covenant for the committed facility, less than 77.5%. Group gearing at 31 March 2024 was 70.0% (31 March 2023: 68.3%). Group policy is to keep interest cover above 2.4x. The interest cover ratio for the year ended 31 March 2024 was 2.9x (year ended 31 March 2023: 3.2x).

(k) Contractual maturity of financial liabilities (principal and future interest payments)
The table below summarises the maturity profile of the Group's financial based on contractual undiscounted payments:

						£'m
	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Year ended 31 March 2024						
Interest bearing loans and borrowings	23.4	159.7	102.7	1,316.0	2,850.1	4,451.9
Derivatives - in Hedge Relationship	-	2.4	1.1	1.3	-	4.8
Derivatives - not in Hedge Relationship	-	(2.5)	(2.8)	(25.8)	(44.1)	(75.2)
Trade and other payables	-	142.1	30.8	-	-	172.9
	23.4	**301.7**	**131.8**	**1,291.5**	**2,806.0**	**4,554.4**

						£'m
	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Year ended 31 March 2023						
Interest bearing loans and borrowings	146.0	64.9	117.8	1,365.4	2,610.3	4,304.4
Derivatives - in Hedge Relationship	-	1.0	0.6	2.0	-	3.6
Derivatives - not in Hedge Relationship	-	(2.0)	(2.7)	(17.6)	(59.7)	(82.0)
Trade and other payables	-	98.3	30.5	-	-	128.8
	146.0	**162.2**	**146.2**	**1,349.8**	**2,550.6**	**4,354.8**

(l) Maturity profile of financial assets and liabilities (carrying value)

							£'m
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Year ended 31 March 2024							
Fixed rate:							
Eurobonds	(111.3)	(111.3)	(396.0)	(376.7)	(99.3)	(1,155.0)	(2,249.6)
Bank loans	(16.1)	(11.5)	(7.3)	(7.1)	(6.8)	(8.2)	(57.0)
Leases	(3.5)	(2.9)	(2.6)	(1.9)	(1.1)	(3.3)	(15.3)
Fixed rate as at 31 March 2024	**(130.9)**	**(125.7)**	**(405.9)**	**(385.7)**	**(107.2)**	**(1,166.5)**	**(2,321.9)**
Variable rate:							
Cash and cash equivalents	61.8	-	-	-	-	-	61.8
Eurobonds	(8.0)	(7.5)	(7.5)	(7.5)	(7.5)	(760.8)	(798.8)
Bank loans	(115.3)	(235.9)	(18.3)	(152.6)	(16.2)	(162.8)	(701.1)
Overdrafts	(23.4)	-	-	-	-	-	(23.4)
Leases	(0.3)	(1.1)	(2.3)	(1.6)	(1.7)	(45.5)	(52.5)
Private Placement	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(121.1)	(122.1)
Intercompany Loan	(58.5)	-	-	-	-	-	(58.5)
Variable rate at 31 March 2024	**(143.9)**	**(244.7)**	**(28.3)**	**(161.9)**	**(25.6)**	**(1,090.2)**	**(1,694.6)**
Net borrowings at 31 March 2024	**(274.8)**	**(370.4)**	**(434.2)**	**(547.6)**	**(132.8)**	**(2,256.7)**	**(4,016.5)**

							£'m
	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Year ended 31 March 2023							
Fixed rate:							
Eurobonds	(3.3)	(3.5)	-	(299.2)	(13.4)	(1,931.1)	(2,250.5)
Bank loans	(15.4)	(15.4)	(15.4)	(7.1)	(3.0)	(16.2)	(72.5)
Leases	(3.5)	(3.2)	(2.8)	(2.1)	(1.2)	(2.5)	(15.3)
Fixed rate as at 31 March 2024	**(22.2)**	**(22.1)**	**(18.2)**	**(308.4)**	**(17.6)**	**(1,949.8)**	**(2,338.3)**
Variable rate:							
Cash and cash equivalents	167.6	-	-	-	-	-	167.6
Eurobonds	-	-	-	-	-	(733.0)	(733.0)
Bank loans	(13.8)	(14.2)	(217.2)	(10.6)	(24.3)	(144.8)	(424.9)
Overdrafts	(146.0)	-	-	-	-	-	(146.0)
Leases	(0.4)	(1.1)	(2.3)	(1.5)	(1.7)	(45.6)	(52.6)
Private Placement	-	-	-	-	-	(117.4)	(117.4)
Intercompany Loan	(33.0)	-	-	-	-	-	(33.0)
Variable rate as at 31 March 2023	**(25.6)**	**(15.3)**	**(219.5)**	**(12.1)**	**(26.0)**	**(1,040.8)**	**(1,339.3)**
Net borrowings as at 31 March 2023	**(47.8)**	**(37.4)**	**(237.7)**	**(320.5)**	**(43.6)**	**(2,990.6)**	**(3,677.6)**

At 31 March 2024, after taking into account the effects of forward foreign exchange contracts, with the exception of the impact of translating the net assets of foreign operations into sterling, the Group had no material currency exposures (2023: £nil).

At 31 March 2024, the Group held forward foreign exchange contracts with a future transaction value of £4.2m (2023: £4.0m) for the purpose of hedging the foreign currency risk of committed future purchases. At 31 March 2024, the fair value gain on the Company's outstanding foreign exchange contracts was £0.1m (2023: £0.3m).

(m) Fair values of financial assets and financial liabilities

A comparison of category of book values, which are all recognised at amortised cost except for interest rate swaps which are recognised at fair value, and fair values of the Group's financial assets and liabilities is set out below:

	Book value 31 March 2024 £'m	Fair value 31 March 2024 £'m
Financial assets		
Cash and cash equivalents	61.8	61.8
Financial investments	11.6	11.6
Derivative assets	7.1	7.1
Trade and other receivables	264.1	264.1
	344.6	344.6
Financial liabilities		
Overdraft	(23.4)	(23.4)
Bank loans (principal £759.7m, 31 March 2023: £497.4m)	(758.1)	(756.8)
Eurobonds (principal £3,109.0m, 31 March 2023: £3,040.7m)	(3,048.4)	(2,946.9)
Private Placement (principal £122.1m, 31 March 2023: £117.4m)	(122.1)	(122.4)
Leases (principal £67.8m, 31 March 2023: £64.1m)	(67.8)	(67.8)
Derivative liabilities	(165.8)	(165.8)
Trade and other payables	(270.0)	(270.0)
Intercompany Loan	(58.5)	(58.5)
	(4,514.1)	**(4,411.6)**
	(4,169.5)	**(4,067.0)**

	Book value 31 March 2023 £'m	Fair value 31 March 2023 £'m
Financial assets		
Cash and cash equivalents	167.6	167.6
Financial investments	11.5	11.5
Derivative assets	9.2	9.2
Trade and other receivables	226.9	226.9
	415.2	415.2
Financial liabilities		
Overdraft	(146.0)	(146.0)
Bank loans (principal £497.4m, 31 March 2022: £651.3m)	(534.4)	(534.4)
Eurobonds (principal £3,040.7m, 31 March 2022: £2,546.7m)	(2,983.2)	(3,040.7)
Private Placement (principal £117.4m, 31 March 2022: £106.5m)	(117.4)	(117.4)
Leases (principal £64.1m, 31 March 2022: £61.5m)	(64.1)	(64.1)
Derivative liabilities	(156.8)	(156.8)
Trade and other payables	(222.7)	(222.7)
Intercompany Loan	(33.0)	(33.0)
	(4,257.6)	**(4,315.1)**
	(3,842.4)	**(3,899.9)**

The fair values of the derivatives and sterling denominated long-term fixed rate and index linked debt with a book value of £3,402.8m (2023: £3,436.6m), have been determined by reference to prices available from the markets on which the instruments involved are traded. All the other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

In the absence of an openly traded market value for the index linked bonds with a book value of £799.3m (2023: £627.5m), the fair value at the balance sheet date has been calculated by considering the remaining debt maturity, the relevant UK index linked gilt rate and an appropriate credit spread by reference to market evidence for conventional bonds.

The difference between the principal and carrying amounts represent original transaction costs which are unwinding over the life of the loan and the effective interest rate less interest paid.

(n) Cash flow hedges - currency forward contracts

At 31 March 2024, the Company held the following forward exchange contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

Currency bought	Maturity	Exchange rate	Transaction value £'m
EUR 26,808	8 April 2024	1.1632	-
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	-
USD 1,928,323	15 April 2024	1.2716	1.5
USD 92,213	18 April 2024	1.2442	0.1
USD 338,750	15 July 2024	1.3211	0.3
USD 403,250	15 October 2024	1.3211	0.3
EUR 253,333	31 October 2024	1.2442	0.2
USD 403,250	15 January 2025	1.3211	0.3
USD 403,250	15 April 2025	1.3211	0.3
USD 92,213	22 April 2025	1.2442	0.1
USD 403,250	15 July 2025	1.3211	0.3
USD 421,750	15 October 2025	1.3211	0.3
USD 253,333	31 October 2025	1.2442	0.2
			4.2

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

There are no material sources of ineffectiveness affecting the hedge relationships.

Cash flow hedges - interest

At 31 March 2024 and 31 March 2023, the Group held one interest rate swap, designated as a hedge of future interest cash flows, for which the Group has forecast transactions. This swap was used to convert variable rate interest payments to a fixed rate basis. The terms of this swap as follows:

Notional amount	Start date	Termination date	Fixed rate
£150.0m	15 October 2015	15 October 2025	2.36%

The swap was designated as highly effective.

Inflation swaps

At 31 March 2024 and at 31 March 2023, the Group held three inflation swaps which were not designated in a hedge relationship. The first is a hedge of future inflation linked cash flows and was used to convert variable inflation-linked revenues on a contract with the EA, to a fixed income stream. The second and third swaps are economical hedges of future interest payments to convert fixed rate interest payments to index linked interest payments.

The inflation-linked revenues are accounted for in the consolidated income statement on an accruals basis. However, the long-term inflation swap that fixes these variable cash flows is measured at fair value with changes in fair value recognised in the income statement. The changes in the fair value reflects the change in the present value of the future cash flows which incorporates future expectations of inflation over the full term of the swap.

Notional amount	Cash flow	Start date	Termination date	Index linked rate
£2.9m	£1.0m	12 May 2004	9 January 2034	2.56%
£150.0m	n/a	15 October 2015	15 October 2025	(0.42%)
£100.0m	n/a	22 June 2017	22 June 2027	(1.10%)

Fair value hedges

At 31 March 2024 and at 31 March 2023, the Group held no fair value hedges.

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- **Level 1**: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- **Level 2**: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- **Level 3**: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All of the Group's financial instruments are measured at Level 2.

Financial instruments measured at fair value

	£'m
Year ended 31 March 2024	
Interest rate swaps	7.0
Inflation swap	(165.8)
Currency forward contracts	0.1
	(158.7)
Year ended 31 March 2023	
Interest rate swaps	8.7
Inflation swap	(156.8)
Power forward contracts	0.2
Currency forward contracts	0.3
	(147.6)

During the year to 31 March 2024, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

All other financial assets and liabilities are carried at amortised cost.

The fair values of inflation swaps are determined by estimating the future cash flows from observable forward inflation indices, which are discounted at a rate which reflects the counterparty credit risk. The fair values of interest rate swaps are determined by estimating the future cash flows from observable yield curves, which are similarly discounted at a rate which reflects the counterparty credit risk. The fair values of power forward contracts are determined with reference to observable forward curves for the estimated commodity indices for the respective delivery periods. The fair values of currency forward contracts are calculated by reference to current forward foreign exchange rates for contracts with similar maturity profiles.

(o) Categories of financial assets/(liabilities)

A comparison of category of book values, which are all recognised at amortised cost except for interest rate swaps which are recognised at fair value, and fair values of the Group's financial assets and liabilities is set out below:

	2024 £'m	2023 £'m
Other financial assets		
Cash and cash equivalents	61.8	167.6
Financial investments	11.6	11.5
Trade and other receivables	264.1	226.9
	337.5	**406.0**
Other financial liabilities		
Bank loans	(758.1)	(534.4)
Eurobonds	(3,048.4)	(2,983.2)
Private Placement	(122.1)	(117.4)
Leases	(67.8)	(64.1)
Overdrafts	(23.4)	(146.0)
Trade and other payables	(270.0)	(222.7)
Intercompany Loan	(58.5)	(33.0)
	(4,348.3)	**(4,100.8)**

21. Share Capital

	2024 £'m	2023 £'m
Authorised:		
122,650,000 Ordinary Shares of £1 each (31 March 2023: 122,650,000)	122.7	122.7
Allotted, called-up and fully paid:		
122,650,000 Ordinary Shares of £1 each (31 March 2023: 122,650,000)	122.7	122.7

NWL is a company limited by shares.

22. Additional cash flow information

	Note	At 1 April 2023 £'m	Cash flow £'m	Other non-cash movements £'m	At 31 March 2024 £'m
Analysis of net debt as at 31 March 2024:					
Cash and cash equivalents		156.0	(105.8)	-	50.2
Financial investments	12	11.5	-	0.1	11.6
Bank overdrafts	16	(146.0)	122.6	-	(23.4)
Loans payable	16	(3,646.7)	(237.5)	(102.9)	(3,987.1)
Leases	17	(64.1)	2.7	(6.4)	(67.8)
		(3,689.3)	**(218.0)**	**(109.2)**	**(4,016.5)**

	Note	As at 1 April 2022	Cash flow £'m	Other non-cash movements £'m	As at 31 March 2023 £'m
Analysis of net debt as at 31 March 2023:					
Cash and cash equivalents		69.2	86.8	-	156.0
Financial investments	12	11.6	(0.1)	-	11.5
Bank overdrafts	16	(62.8)	(83.2)	-	(146.0)
Loans payable	16	(3,280.9)	(223.4)	(142.4)	(3,646.7)
Leases	17	(61.5)	2.5	(5.1)	(64.1)
		(3,324.4)	**(217.4)**	**(147.5)**	**(3,689.3)**

23. Financial commitments

(a) Capital commitments

	2024 £'m	2023 £'m
Contractual commitments for the acquisition of property, plant and equipment and intangible assets	249.2	243.5

In addition to these commitments, the Group 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 2024 the Group held forward foreign exchange contracts of £4.0m (2023: £6.3m) for the purpose of hedging the foreign currency risk of committed future purchases.

(c) Power purchase agreement

In 2018/19 the Group signed a power purchase agreement with Ørsted, to purchase renewable energy from an offshore wind farm which will meet around 25% of the Group's energy demand. The agreement is for a ten year term at a fixed commodity price, increasing annually by CPI. The Group 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.

24. Contingent liabilities

Environmental Information Regulations claim

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. The stage 1 trial concluded in December 2023 and we have received the Court's judgement which was positive and supports the stance we have taken throughout. However, the Claimant may appeal this judgement.

Wastewater Investigations

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 required further information to be provided.

In December 2023, Ofwat confirmed that it had reached the next stage in its enforcement case into the Company's management of its sewage treatment works and wider networks. Ofwat has notified NWL, along with two other companies, of its provisional findings privately. NWL has responded to Ofwat's provisional findings and awaits next steps.

If Ofwat ultimately makes a finding of breach sufficient to warrant a fine, as part of its enforcement powers, it can impose a financial penalty of up to 10% of relevant turnover. Where appropriate, Ofwat may decide not to issue an enforcement order or to impose a reduced or no financial penalty at the conclusion of an investigation where a company has come forward to formally commit to taking appropriate measures to secure its compliance and to provide suitable redress for its failures.

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. Therefore, at this time, the directors are unable to reliably estimate the financial effect nor have certainty over the timing of the resolution of this investigation.

Leigh Day claim

NWL and its parent company, NWGL, has received a collective proceedings claim in the Competition Appeal Tribunal for aggregate damages up to £225m including interest. The claim, on behalf of a class comprising household wastewater customers of NWL on an opt-out basis, alleges that customers have been overcharged for sewerage services as a result of an alleged abuse of a dominant position. Similar claims have been made against five other wastewater companies. A certification hearing is scheduled to take place in September 2024. NWL considers this claim to be speculative and without merit and will defend it robustly.

25. Pensions

NWL participates in a Group defined benefit pension scheme, NWPS, which was closed to future accrual of benefits with effect from 31 May 2022, following a consultation process with members. 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 2022. At that date, the value of assets amounted to £799.2m and the liabilities were £980.7m, resulting in a deficit of £181.5m and a funding level of 81.5%.

No contributions in respect of future accrual of benefits are required following the Scheme closure to future accrual. The Scheme Trustee and Company agreed deficit recovery payments (including expenses) of £25.8m for the period January 2023 to March 2023 and £29.1m pa for the period April 2023 to October 2023.

In October 2023, the Company and Trustee entered an ABF arrangement. This arrangement provides greater security to the pension scheme allowing the pension actuarial deficit to be repaid over a longer time period of 15 years. The principal asset of the ABF is a £545m loan note from Northumbrian Water Company 1 Scottish Limited Partnership to NWL. The repayments of this loan note underpin payments of £7.5m pa to the NWPS for deficit recovery and expenses, effective from November 2023 and increasing annually by RPI inflation. These payments will continue to October 2038 with the expectation that the deficit will be removed by this date. There will be an annual review of the pension scheme and if this reports an actuarial surplus then payments to NWPS will be paused, restarting if the scheme returns to a deficit position.

Employers' contributions (including associated company contributions) of £20.2m were paid in the year to 31 March 2024, of which £18.3m related to deficit reduction. For the year to 31 March 2025, employers contributions are projected to be £6.0m 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 3,299 active members in defined contribution pension arrangements at 31 March 2024 (2023: 3,104), 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 £11.9m (2023: £9.8m).

The additional disclosures regarding the defined benefit scheme as required under IAS 19 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 IAS 19 has updated the actuarial valuation described above as at 31 March 2024. Investments have been valued, for this purpose, at fair value.

IAS 19 actuarial assumptions:	2024	2023
Discount rate	5.00%	4.90%
Price inflation (RPI)	3.20%	3.20%
Price inflation (CPI)	2.85%	2.80%
Pension increases linked to RPI	3.20%	3.20%
Pension increases linked to CPI	2.85%	2.80%
Mortality assumptions[1]		
- Life expectancy for a member aged 65 - female (years)	23.6	24.2
- Life expectancy for a member aged 65 - male (years)	21.1	21.6

[1] 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:

	2024 £’m	2023 £’m
Equities	156.1	172.2
Corporate bonds	152.6	59.9
Diversified growth	28.9	100.2
Government bonds	279.4	383.7
Property related funds	6.5	13.2
Cash and cash equivalents	58.0	2.6
Other	108.8	91.3
Total fair value of assets	**790.3**	**823.1**
Present value of liabilities	**(806.5)**	**(805.2)**

The amounts recognised in the income statement and in the statement of comprehensive income are analysed as follows:

Recognised in the income statement:	2024 £'m	2023 £'m
Current service cost	-	2.0
Administration cost	1.4	1.5
Past service cost	-	(13.0)
Recognised in operating costs in arriving at operating profit	**1.4**	**(9.5)**

	2024 £'m	2023 £'m
Net interest (credit) / cost on plan obligations	(1.3)	(0.8)
Recognised in finance costs	**(1.3)**	**(0.8)**

Recognised in the statement of comprehensive income:	2024 £'m	2023 £'m
Changes in demographic assumptions	23.1	-
Changes in financial assumptions	8.8	339.1
Loss on assets (excluding amounts included in finance costs)	(44.4)	(345.2)
Other actuarial (losses)	(41.7)	(33.4)
Net actuarial (losses) / gains	**(54.2)**	**(39.5)**
Contributions made by associated company	0.1	0.1
Net actuarial (losses) / gains	**(54.1)**	**(39.4)**

The past service credit of £13.0m reported in the prior year was the result of two special events which occurred during the period. This comprised:

- 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:

	2024 £'m	2023 £'m
At start of period	**805.2**	**1,144.1**
Current service cost	-	2.0
Past service (credit) / cost	-	(13.0)
Interest cost	38.3	33.5
Benefits paid	(46.8)	(55.7)
Remeasurement:		
Changes in demographic assumptions	(23.1)	-
Changes in financial assumptions	(8.8)	(339.1)
Other actuarial gains	41.7	33.4
At end of period	**806.5**	**805.2**

Changes in the fair value of plan assets are analysed as follows:

	2024 £'m	2023 £'m
At start of period	**823.1**	**1,161.6**
Interest income on scheme assets	39.6	34.3
Contributions by employers (including associated company)	20.2	29.6
Benefits paid	(46.8)	(55.7)
Scheme expenses	(1.4)	(1.5)
Remeasurement:		
Loss on assets (excluding amounts included in finance costs)	(44.4)	(345.2)
At end of period	**790.3**	**823.1**

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 IAS 19 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 2024:

	£'m
0.25% reduction in discount rate	831.6
0.25% increase in inflation	824.7
1 year increase in life expectancy	829.6

Maturity profile of the defined benefit obligation for the year ended 31 March 2024:

	Number of members	Liability split (%)	Duration (years)
Deferred members	1,764	41	19
Pensioners	3,220	59	9

WPS increases provisions
Court proceedings are likely to commence in 2024 in relation to certain rules of the WPS section of the Scheme and how it is determined whether, in a year where RPI exceeds 5%, the increases for members in the WPS section should be capped at 5% or paid in line with RPI (uncapped). The Company has been engaging with the Trustee as to the correct interpretation of the WPS increases provisions and it has been agreed between the Company and the Trustee that this point should be put to Court in Part 8 proceedings. Where the Scheme is in deficit on a technical provisions basis, as is the case now, the way in which the Rules should operate is not clear, and the Court will be asked to confirm this.

Guaranteed minimum pension (GMP) equalisation
A High Court ruling in October 2018 confirmed that pension scheme benefits should be equalised between men and women for inequalities caused by GMPs earned between 1990 and 1997. A supplementary ruling in November 2020 confirmed that Trustees should consider past transfer values paid to leavers and potentially pay top-ups to the receiving scheme if transfers did not reflect equalised benefits.

We understand that an allowance has previously been made for GMP equalisation, including an allowance for unequalised transfer values, and so no further cost is reflected in the income statement.

Virgin Media Limited v NTL Pension Trustees II Limited
We are aware of the ruling resulting from this case and the potential appeal. The NWPS, like many pension schemes in the UK, may be impacted by the judgement in this case as had benefits contracted out from the additional state pension between 1997 and 2016. We understand that no analysis has yet been carried out by the Trustee of the Scheme on any potential impact, but we will continue to monitor the case.

26. Related party disclosures

During the year, the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into and trading balances outstanding at the balance sheet date between the Group and its associates, joint ventures and companies within the CKHH group, are as follows:

Trading transactions

	Sale of goods		Purchase of goods	
	31 March 2024 £'m	31 March 2023 £'m	31 March 2024 £'m	31 March 2023 £'m
Related party:				
Northern Gas Networks Limited	0.1	0.2	0.2	-
Anglian Water Business National Ltd	127.4	123.0	0.1	0.4
VLS	0.1	0.1	15.6	15.1
NWG Limited	1.2	0.7	1.7	2.2
TRICL	-	-	0.3	0.3

	Amounts owed by related party		Amounts owed to related party	
	31 March 2024 £'m	31 March 2023 £'m	31 March 2024 £'m	31 March 2023 £'m
Related party:				
UK Power Networks (Operations) Limited	-	-	-	-
Anglian Water Business National Ltd	9.8	9.7	-	-
VLS	1.5	0.9	-	13.3
NWG Limited	2.8	2.5	1.8	1.6

Sales to jointly controlled entities include £127.4m (2023: £123.0m) in respect of non-household wholesale charges.

Purchases from jointly controlled entities include £4.3m (2023: £4.4m) in respect pf capital purchases under leases, £7.8m (2023: £8.7m) in respect of costs payable under leases and £3.6m (2023: £2.2m) in respect of other purchases.

The Group also surrendered Group tax relief of £0.3m (203: £1.5m) to CELTS, an associated company.

Other related transactions direct with NWGL during the year included dividend payments of £65.8m (2023: £110.8m), and the receipt of an intercompany loan to the value of £58.5m (2023: £33.0m).

For jointly controlled entities, outstanding balances due from related parties are expected to be settled within 60 days and amounts due to related parties are in respect of leasing and loan arrangements, wholesale charges and the provision of guarantees, where the amounts owed will relate specifically to the terms of the respective agreements. Payments for tax losses are based on the tax rate in force for the period.

Remuneration of key management personnel
Key management personnel comprise the Directors of the NWL. The remuneration of the key management personnel is included within the amounts disclosed below:

	Year to 31 March 2024 £'m	Year to 31 March 2023 £'m
Short term employee benefits	1.1	1.0
Other long-term employee benefits	0.1	0.1
	1.2	**1.1**

27. 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 the largest 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 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2024 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the material accounting policy information;
- the related consolidated notes 1 to 27; and
- the related parent company notes 1 to 15.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Generally Accepted Accounting Practice and as applied in accordance with the provisions of the Companies Act 2006.

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 group and the parent 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 as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

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 for group and parent company was: • Provision for bad and doubtful debt. Within this report, key audit matters are identified as follows: Similar level of risk
Materiality	The materiality that we used in the current year for the group financial statements was £12.85m which was determined based on 3.5% of the group's Earnings Before Interest, Tax and Amortisation (EBITDA). The parent company materiality was capped at 95% of group materiality at £12.20m.
Scoping	We performed full scope audit procedures for Northumbrian Water Limited and the associated consolidation adjustments for the NWL consolidation and specific procedures on certain account balances for Reiver Finance Limited and Northumbrian Water Finance plc, which together accounted for 90% of the group's assets and 98% of the group's EBITDA.
Significant changes in our approach	This is the first-year consolidated accounts are prepared by the group. No significant changes in our audit approach for the parent company as compared to the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent 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;
- assessing the model used to prepare the forecasts, testing of mathematical accuracy and reasonableness 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 group's and parent 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 debt

Key audit matter description

At 31 March 2024 the bad debt provision was £86.2m (2023: £92.3m). The bad debt charge of £13.2m represented 2% of total household turnover (2023: £11.8m and 1.95% of total household turnover).

A proportion of the group's customers do not or cannot pay their water bills, which results in the need for a provision to be made for the risk of non-payment of the customer balance. The bad debt provision is material, a key area of estimation uncertainty within the group and an area of scrutiny by Ofwat.

The provision is based on assumptions made on the forecast and historic collectability of debts across both invoiced amounts and accrued revenues. 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.

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, focused on the provisioning rates which are set using experience of cash collection in historical periods and potential impacts of forward-looking macro-economic factors on collectability, applied in the household bad debt provision to provide an expectation of future credit losses under IFRS 9.

This is included as an area involving estimation in note 1(r) to the financial statements, and the relevant accounting policy adopted is disclosed in note 1(p). The closing bad debt provision as at 31 March 2024 is disclosed in note 14 and the year-on-year bad debt charge is disclosed in note 3.

How the scope of our audit responded to the key audit matter

We In response to this matter, we have performed the following procedures:

- Obtained an understanding of management's relevant controls surrounding the estimate;within the bad debt provision estimation process;
- We compared the assumptions made by managementdirectors 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 disclosuredisclosures made in the financial statements in line with FRSInternational Financial Reporting Standards (IFRSs).

Key observations

Based on the work performed above, we are satisfied that the bad debt provision is reasonable and management's judgements are appropriate.

6. Other matter - unaudited corresponding figures

This is the first-year consolidated accounts are prepared by the group. The group financial statements include corresponding figures for the prior year. These corresponding figures are unaudited.

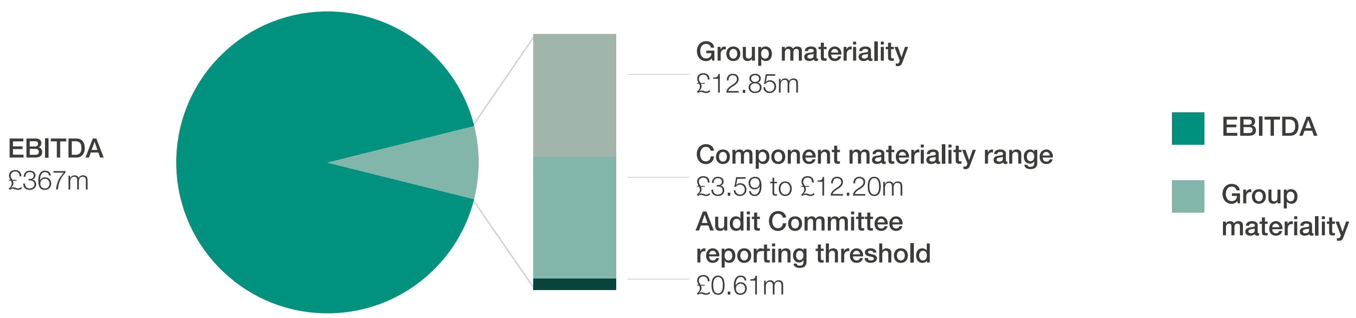
7. Our application of materiality

7.1 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:

	Group financial statements	Parent company financial statements
Materiality	£12.85m	£12.20m (2023: £12.5m)
Basis for determining materiality	The materiality equates to 3.5% of the group's Earnings Before Interest, Tax and Amortisation (EBITDA).	Parent company materiality equates to 3.4% of the company's Earnings Before Interest, Tax and Amortisation (EBITDA), which is capped at 95% of group materiality.
Rationale for the benchmark applied	EBITDA was selected as the appropriate measure on which to determine materiality as this is the key metric the Boardboard use to assess the performance of the business.	



7.2 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.

	Group financial statements	Parent company financial statements
Performance materiality	70% of group materiality	70% (2023: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • our consideration of the group's control environment; • no significant deficiencies noted in the functioning of the key business operations; • the limited number of changes to the business and the limited turnover of management and key accounting personnel during the year; and • the history of a low number of corrected and uncorrected misstatements identified in previous periods.	

7.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £600,000 (2023: £634,000), 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.

8. An overview of the scope of our audit

8.1. Identification and scoping of components

The group comprises Northumbrian Water Limited ('NWL') (the regulated water and water recycling business) and its subsidiary companies consisting of the Asset Backed Funding ('ABF') entities (for the ABF arrangement) and group's financing entities including Northumbrian Water Finance plc, Reiver Holdings Limited, Reiver Finance Limited, Bakethin Holdings Limited and Bakethin Finance plc.

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

We performed full scope audit procedures for Northumbrian Water Limited and the associated consolidation adjustments for the NWL consolidation and specific procedures on certain account balances for Reiver Finance Limited and Northumbrian Water Finance plc, which together accounted for 90% of the group's net assets and 98% of the group's EBITDA. All procedures were carried out directly by the group audit team.

8.2. Our consideration of the control environment

We involved our IT specialists to assess relevant controls over the Company's IT systems. As reported to the Audit Committee, we did not adopt a controls reliance approach in the current year.

8.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the company's business and its Financial Statements. We have evaluated management's documentation regarding the process of identifying climate-related risks and the impact on the Financial Statements. Whilst management have acknowledged the risks posed by climate change, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the Financial Statements for the year ended 31 March 2024.

As part of our audit, we performed our own qualitative risk assessment of the potential impact of climate change on the company's account balances and classes of transactions and did not identify any additional reasonably possible risks of material misstatement as a result of climate change. We also deemed that climate-related risks have no significant impact on our key audit matters. Our procedures were performed with the involvement of climate change and sustainability specialists, which included reading disclosures included in the Strategic Report to consider whether they are materially consistent with the Financial Statements and our knowledge obtained in the audit and evaluating whether appropriate disclosures have been made in the Financial Statements.

9. 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.

10. 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

11. 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.

12. 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.

12.1 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 group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board;
- 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, including those that are specific to the group's sector;
  - any matters we identified having obtained and reviewed the group'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 group 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 group's ability to operate or to avoid a material penalty. These included the group's compliance with the following: regulations surrounding pollution of water, the Drinking Water Inspectorate (DWI), the consumer council for water, Health and Safety regulations, the Employment Act and with the Environment Agency.

12.2 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 including the disclosures in note 24 to the financial statements;

- 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 relating to the valuation of unbilled revenue accrual, 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 2023 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

13. 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

14. Matters on which we are required to report by exception

14.1 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2 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.

15. 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
10 July 2024

Company Financial Statements

Company Balance Sheet

at 31 March 2024 (registered number 02366703)

	Note	2024 £'m	2023 £'m
Non-current assets			
Intangible assets	2	55.2	55.0
Property, plant and equipment	3	5,307.2	4,998.2
Investments in subsidiary undertakings	4	453.1	-
Loans to subsidiary undertakings	5	2.0	1.9
Pension asset	14	72.3	17.9
		5,889.8	**5,073.0**
Current assets			
Inventories	6	10.3	8.0
Trade and other receivables	7	264.0	246.3
Cash and cash equivalents		36.6	146.6
		310.9	**400.9**
Total assets		**6,200.7**	**5,473.9**
Current liabilities			
Trade and other payables	8	(267.5)	(220.2)
Borrowings	9	(220.9)	(208.5)
Provisions	10	(0.1)	(0.1)
		(488.5)	**(428.8)**
Non-current liabilities			
Borrowings	9	(4,173.9)	(3,420.6)
Provisions	10	(3.8)	(3.8)
Deferred tax liabilities		(605.6)	(619.6)
Derivatives	11	(101.3)	(87.1)
Grants and deferred income	12	(592.3)	(567.5)
		(5,476.9)	**(4,698.6)**
Total liabilities		**(5,965.4)**	**(5,127.4)**
Net assets		**235.3**	**346.5**
Capital and reserves			
Share capital	13	122.7	122.7
Cash flow hedge reserve		5.4	7.0
Profit and loss account		107.2	216.8
Equity attributable to the shareholder of the Company		**235.3**	**346.5**

The loss dealt with in the financial statements of the parent Company is £13.7m (2023: £27.1m).

Approved by the Board of Directors on 10 July 2024 and signed on their behalf by: **H Mottram**

Company Statement of Changes in Equity

for the year ended 31 March 2024

	Share capital £'m	Cash flow hedge reserve £'m	Retained earnings £'m	Total equity £'m
At 1 April 2022	**122.7**	**9.7**	**386.1**	**518.5**
Loss for the year	-	-	(27.1)	(27.1)
Other comprehensive expense	-	(2.7)	(31.4)	(34.1)
Other comprehensive income	-	(2.7)	(31.4)	(34.1)
Total comprehensive income	-	(2.7)	(58.5)	(61.2)
Dividends	-	-	(110.8)	(110.8)
At 31 March 2023	**122.7**	**7.0**	**216.8**	**346.5**
Loss for the year	-	-	(13.7)	(13.7)
Other comprehensive expense	-	(1.6)	(40.5)	(42.1)
Total comprehensive expense for the year	**-**	**(1.6)**	**(54.2)**	**(55.8)**
Dividends	-	-	(55.4)	(55.4)
At 31 March 2024	**122.7**	**5.4**	**107.2**	**235.3**

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.

Notes to the Company Financial Statements
for the year ended 31 March 2024

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 123**. The nature of the Company's operations and its principal activities are set out in the Strategic Report on **page 12**.

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.

The consolidated Financial Statements above include the Company's capital commitments which can be found in note 23 and the Company's contingent liability information which can be found in note 24.

These Financial Statements are separate financial statements.

(a) Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 100, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, financial instruments, standards not yet effective, related party transactions and remuneration of key management personnel. As permitted by s408 of the Companies Act 2006, no profit and loss account has been presented for the parent Company.

Where relevant, equivalent disclosures have been given in the group accounts of NWL. For deferred tax and dividend information please see note 8(d) and note 9.

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 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 2024, the Company had net current liabilities of £177.6m (2023: £27.9m). The Directors have reviewed cash flow requirements and other factors, in particular the £450m committed bank facility, which was £355m undrawn at 31 March 2024, and £350m of new loans which were received in April 2024 after the balance sheet date, as described in the going concern statement on **page 116** 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 11 of the consolidated statements.

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

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

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and, where adjustments are required, these are made prospectively. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease. Assets in the course of construction are not depreciated until commissioned.

Infrastructure assets

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

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

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

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

(e) Financial investments

Financial investments are stated at their purchase cost, less provision for diminution in value (note 12).

(f) Grants and contributions

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

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

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

(g) Leases

The Company assesses whether a contract is or contains a lease, at the inception of a new contract and recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an

index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented within Borrowings in the Balance sheet and as a separate line within note 9.

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. All stock is used internally and therefore no fair value less costs to sell considerations are required. Inventory is charged at average cost upon use.

(i) Pension costs
The Company is the principal employer of the NWPS, a defined benefit scheme which is closed to future accrual.

The present value of the defined benefit obligation is determined using the projected unit credit method, which attributes entitlement to benefits to the current and prior periods 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 and scheme expenses are 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 Company participates in a defined contribution pension arrangement. The costs of the defined contribution scheme 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 25; and the doubtful debt provision, reported in note 14, 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 following accounting standards, interpretations and amendments have been adopted by the Group in the year ended 31 March 2024:
- IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction; and
- IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules

At the date of signing these financial statements, there are no further standards or interpretations in issue but not yet effective which are expected to have a material impact on the Group.

2. Intangible Assets

	Note	Software £'m	Assets in development £'m	Total £'m
Cost:				
At 1 April 2023		137.3	6.3	143.6
Additions		-	9.3	9.3
Transfers		4.9	(4.9)	-
At 31 March 2024		**142.2**	**10.7**	**152.9**
Amortisation:				
At 1 April 2023		88.6	-	88.6
Charge for the year		9.1	-	9.1
At 31 March 2024		**97.7**	**-**	**97.7**
Carrying value:				
At 31 March 2024		**44.5**	**10.7**	**55.2**
At 31 March 2023		48.7	6.3	55.0

Cumulative borrowing costs capitalised in the cost of intangible assets amount to £4.4m (2023: £4.1m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.76% (2023: 4.04%).

3. 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 2023	164.8	3,297.9	3,588.4	257.3	289.6	7,598.0
Additions / adjustments	-	23.0	0.9	-	432.8	456.7
Schemes commissioned	3.4	113.8	133.7	5.4	(256.3)	-
Reclassifications	-	-	-	-	-	-
Disposals	-	(2.1)	(3.3)	-	-	(5.4)
At 31 March 2024	**168.2**	**3,432.6**	**3,719.7**	**262.7**	**466.1**	**8,049.3**
Depreciation:						
At 1 April 2023	75.2	515.9	1,790.4	218.3	-	2,599.8
Charge for the year	3.8	31.6	104.6	7.6	-	147.6
Reclassifications	-	-	-	-	-	-
Disposals	-	(2.1)	(3.2)	-	-	(5.3)
At 31 March 2024	**79.0**	**545.4**	**1,891.8**	**225.9**	**-**	**2,742.1**
Carrying value:						
At 31 March 2024	**89.2**	**2,887.2**	**1,827.9**	**36.8**	**466.1**	**5,307.2**
At 31 March 2023	89.6	2,782.0	1,798.0	39.0	289.0	4,998.2
Right of use assets included above:						
Additions in the year	-	-	4.3	-	-	4.3
Depreciation charge for the year	0.1	0.5	2.8	-	-	3.4
Carrying value at 31 March 2024	**2.0**	**41.3**	**13.8**	**-**	**-**	**57.1**
Carrying value at 31 March 2023	2.1	41.8	12.3	-	-	56.2

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 £97.4m (2023: £83.6m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.76% (2023: 4.04%).

4. Investments in subsidiary undertakings

	2024 £'m	2023 £'m
Investments in subsidiary undertakings	453.1	-

During the year, NWL entered an ABF arrangement in respect of its defined benefit pension scheme. This involved the incorporation of three new direct subsidiaries, Northumbrian Water Company 1 Limited, Northumbrian Water Company 2 Limited and Northumbrian Water Company 3 Limited, and two indirect investments, all registered in Scotland at 10/1 Capella Building, 60 York Street, Glasgow, United Kingdom, G2 8JX.

The investment in subsidiary undertakings represents the investment in Northumbrian Water Company 1 Scottish Limited Partnership under the ABF arrangement.

The Company's interests in subsidiaries at 31 March 2024 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	Financing company
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
Northumbrian Water Company 1 Limited	Scotland	Ordinary shares of £1	100	General Partner
Northumbrian Water Company 2 Limited	Scotland	Ordinary shares of £1	100	General Partner
Northumbrian Water Company 3 Limited	Scotland	Ordinary shares of £1	100	Financing company

The registered office of the subsidiaries operating in England and Wales is Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ. Holdings are direct other than Reiver Finance Limited which is indirect.

During the year, NWL entered an ABF arrangement in respect of its defined benefit pension scheme. This involved the incorporation of three new direct subsidiaries, Northumbrian Water Company 1 Limited, Northumbrian Water Company 2 Limited and Northumbrian Water Company 3 Limited, and two Scottish limited partnerships, all registered in Scotland at 10/1 Capella Building, 60 York Street, Glasgow, United Kingdom, G2 8JX.

The Company is a partner in Northumbrian Water Company 1 Scottish Limited Partnership and Northumbrian Water Company 2 Scottish Limited Partnership, registered in Scotland.

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.

5. Loans to subsidiary undertakings

	2024 £'m	2023 £'m
Loans to subsidiary undertakings	2.0	1.9

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 2024 the balance was £2.0m (2023: £1.9m).

6. Inventories

	2024 £'m	2023 £'m
Raw materials and consumables	10.3	8.0

7. Trade and other receivables

	2024 £'m	2023 £'m
Trade receivables	221.3	212.7
Doubtful debt provision	(86.2)	(92.3)
Income tax recoverable	0.2	19.6
Amounts owed by other Group companies	4.5	3.4
Other receivables	20.2	8.4
Prepayments	6.5	4.7
Interest prepayments	1.8	1.8
Accrued income	95.7	88.0
	264.0	**246.3**

Amounts owed by other Group companies includes £0.3m (2023: £nil) in respect of tax losses surrendered by the Company. The remaining amounts owed by other Group companies include £2.6m due from NWGL (2023: £2.3m) and £1.2m (2023: £1.1m) due from fellow subsidiary companies, which are due on demand with no fixed repayment date and bear no interest.

Other receivables of £20.2m is predominantly made up of VAT amounts receivable of £13.5m and a contractual settlement of £6.5m.

8. Trade and other payables

	2024 £'m	2023 £'m
Trade payables	52.6	36.2
Amounts owed to other Group companies	1.9	2.9
Taxation and social security	3.7	3.2
Receipts in advance	22.4	23.3
Other payables	15.1	14.1
Deferred income	11.6	11.6
Capital accruals	62.4	37.4
Interest accruals	51.7	49.4
Other accruals	46.1	42.1
	267.5	**220.2**

Included in amounts owed to other Group companies is £nil (2023: £1.3m) payable in respect of tax losses surrendered to the Company. The remaining amount of £1.9m (2023: £1.6m) is owed to NWGL and is due on demand with no fixed repayment date and bears no interest.

Other payables of £15.1m predominantly comprises of retentions and deposits held, provisions and third-party cash collected.

9. Borrowings

	Note	2024 £'m	2023 £'m
Current:			
Bank overdrafts	16(a)	23.4	146.0
Current instalments due on external borrowings	16(a)	124.5	29.0
Current instalments due on internal borrowings	16(b)	69.1	33.0
Current instalments due on leases	17	3.9	0.5
		220.9	**208.5**
Non-current:			
Non-current instalments due on external borrowings	16(a)	633.0	484.2
Non-current instalments due on internal borrowings	16(b)	3,477.0	2,872.8
Non-current instalments due on leases	17	63.9	63.6
		4,173.9	**3,420.6**

(a) External borrowings
Bank overdrafts are repayable on demand and bear interest at an average rate of 6.02% during the year.
Loans wholly repayable within five years amount to £1,825.0m (2023: £776.7m).

Loans not wholly repayable within five years amount to £2,443.5m (2023: £2,755.3m) and bear interest rates in the range 1.625% to 6.375%.

The fair value loss on the Company's outstanding interest rate and RPI swaps in the year to 31 March 2024 was £14.3m (2023: loss of £21.5.m) in relation to interest rate swaps with a notional principal of £350m (2023: £350m).

(b) Internal borrowings
Included in internal borrowings is £58.5m (2023: £33.0m) owed to NWGL in respect of an overnight borrowing which incurs interest at a rate of 6.25% (2023: 5.25%).

Internal borrowings includes £541.0 (2023: £nil) in respect of a loan note issued to NWL by Northumbrian Water Company 1 Scottish Limited Partnership as part of the ABF arrangement in relation to the defined benefit pension scheme, with an original principal of £545.0m, an interest rate of 6.947% with a maturity date of October 2038.

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 2024 £'m	Balance at 31 March 2023 £'m
Fixed rate Eurobond	350.0	Feb-23	6.875	-	-
Fixed rate Eurobond	350.0	Apr-33	5.625	344.9	344.4
Index linked Eurobond	150.0	Jul-36	2.033	295.2	270.4
Index linked Eurobond	60.0	Jan-41	1.6274	116.8	107.2
Index linked Eurobond	100.0	Jul-49	1.7118	193.6	177.6
Index linked Eurobond	100.0	Jul-53	1.7484	193.6	177.6
Fixed rate Eurobond	360.0	Jan-42	5.125	343.6	343.1
Fixed rate Eurobond	300.0	Oct-26	1.625	299.3	299.1
Fixed rate Eurobond	300.0	Oct-27	2.375	298.8	298.5
Index linked Private Placement	100.0	Oct-39	CPI + 0.242	122.1	117.4
Fixed rate Eurobond	400.0	Oct-34	6.375	391.7	390.9
Fixed rate Eurobond	350.0	Feb-31	4.5	347.0	346.6
	2,920.0			**2,946.6**	**2,872.8**

10. Provisions

	£'m
At 1 April 2023	3.9
Charged to the profit and loss account in the year	0.1
Utilised during the year	(0.1)
At 31 March 2024	**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.

11. Financial instruments

	2024 £'m	2023 £'m
Financial (assets) / liabilities that are designated and effective as hedging instruments carried at fair value:		
Interest rate swaps	(7.0)	(8.7)
Power forward contracts	-	(0.2)
Foreign exchange contracts	(0.1)	(0.3)
Financial liabilities carried at fair value through profit and loss:		
Inflation swaps	108.4	96.3
	101.3	**87.1**

At 31 March 2024 and 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 2024 and 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	Fixed rate
£150.0m	15 October 2015	15 October 2025	(0.42%)
£100.0m	22 June 2017	22 June 2027	(1.10%)

At 31 March 2024, the Company held the following forward exchange contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

Currency bought	Maturity	Exchange rate	Transaction value £'m
EUR 26,808	8 April 2024	1.1632	-
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	-
USD 1,928,323	15 April 2024	1.2716	1.5
USD 92,213	18 April 2024	1.2442	0.1
USD 338,750	15 July 2024	1.3211	0.3
USD 403,250	15 October 2024	1.3211	0.3
EUR 253,333	31 October 2024	1.2442	0.2
USD 403,250	15 January 2025	1.3211	0.3
USD 403,250	15 April 2025	1.3211	0.3
USD 92,213	22 April 2025	1.2442	0.1
USD 403,250	15 July 2025	1.3211	0.3
USD 421,750	15 October 2025	1.3211	0.3
USD 253,333	31 October 2025	1.2442	0.2
			4.2

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

12. Grants and Deferred Income

	Capital grants and contributions £'m	Proceeds from Kielder securitisation £'m	Total £'m
At 1 April 2023	**489.2**	**78.3**	**567.5**
Additions	38.0	-	38.0
Amortised during the year	(6.2)	(7.0)	(13.2)
At 31 March 2024	**521.0**	**71.3**	**592.3**

The Kielder securitisation, implemented in 2004, 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.

13. Share Capital

	2023 £'m	2022 £'m
Authorised:		
122,650,000 Ordinary Shares of £1 each (31 March 2023: 122,650,000)	122.7	122.7
Allotted, called-up and fully paid:		
122,650,000 Ordinary Shares of £1 each (31 March 2023: 122,650,000)	122.7	122.7

NWL is a company limited by shares. The parent company has one class of ordinary shares which carry no right to fixed income.

14. Pensions

NWL participates in a Group defined benefit pension scheme, NWPS, which was closed to future accrual of benefits with effect from 31 May 2022, following a consultation process with members. 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 2022. At that date, the value of assets amounted to £799.2m and the liabilities were £980.7m, resulting in a deficit of £181.5m and a funding level of 81.5%.

No contributions in respect of future accrual of benefits are required following the Scheme closure to future accrual. The Scheme Trustee and Company agreed deficit recovery payments (including expenses) of £25.8m for the period January 2023 to March 2023 and £29.1m pa for the period April 2023 to October 2023.

In October 2023, the Company and Trustee entered an ABF arrangement. This arrangement provides greater security to the pension scheme allowing the pension actuarial deficit to be repaid over a longer time period of 15 years. The principal asset of the ABF is a £545m loan note from Northumbrian Water Company 1 Scottish Limited Partnership to NWL. The repayments of this loan note underpin payments of £7.5m pa to the NWPS for deficit recovery and expenses, effective from November 2023 and increasing annually by RPI inflation. These payments will continue to October 2038 with the expectation that the deficit will be removed by this date. There will be an annual review of the pension scheme and if this reports an actuarial surplus then payments to NWPS will be paused, restarting if the scheme returns to a deficit position.

Employers' contributions (including associated company contributions) of £20.2m were paid in the year to 31 March 2024, of which £18.3m related to deficit reduction. For the year to 31 March 2025, employers contributions are projected to be £6.0m 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 3,299 active members in defined contribution pension arrangements at 31 March 2024 (2023: 3,104), 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 £11.9m (2023: £9.8m).

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 2024. Investments have been valued, for this purpose, at fair value.

FRS 101 acutarial assumptions:	2024	2023
Discount rate	5.00%	4.90%
Price inflation (RPI)	3.20%	3.20%
Price inflation (CPI)	2.85%	2.80%
Pension increases linked to RPI	3.20%	3.20%
Pension increases linked to CPI	2.85%	2.80%
Mortality assumptions[1]		
- Life expectancy for a member aged 65 - female (years)	23.6	24.2
- Life expectancy for a member aged 65 - male (years)	21.1	21.6

[1] 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:

	2024 £'m	2023 £'m
Equities	156.1	172.2
Corporate bonds	152.6	59.9
Diversified growth	28.9	100.2
Government bonds	279.4	383.7
Property related funds	6.5	13.2
Cash and cash equivalents	58.0	2.6
ABF investment due from SLP	88.5	-
Other	108.8	91.3
Total fair value of assets	878.8	823.1
Present value of liabilities	(806.5)	(805.2)
Surplus	**72.3**	**17.9**

The ABF investment is in Northumbrian Water Company 1 Scottish Limited Partnership, which is a subsidiary of the Company. This investment is eliminated upon consolidation.

The amounts recognised in the income statement and in the statement of comprehensive income are analysed as follows:

Recognised in the income statement:	2024 £'m	2023 £'m
Current service cost	-	2.0
Administration cost	1.4	1.5
Past service cost	-	(13.0)
Recognised in operating costs in arriving at operating profit	**1.4**	**(9.5)**

	2024 £'m	2023 £'m
Net interest (credit) / cost on plan obligations	(1.3)	(0.8)
Recognised in finance costs	**(1.3)**	**(0.8)**

Recognised in the statement of comprehensive income:	2024 £'m	2023 £'m
Changes in demographic assumptions	23.1	-
Changes in financial assumptions	8.8	339.1
Loss on assets (excluding amounts included in finance costs)	(44.2)	(345.2)
Other actuarial losses	(41.7)	(33.4)
Net actuarial gains (losses) / gains	**(54.0)**	**(39.5)**
Contributions made by associated company	0.1	0.1
Net actuarial gains (losses) / gains	**(53.9)**	**(39.4)**

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:

	2024 £'m	2023 £'m
At start of period	**805.2**	**1,144.1**
Current service cost	-	2.0
Past service (credit) / cost	-	(13.0)
Interest cost	38.3	33.5
Benefits paid	(46.8)	(55.7)
Remeasurement:		
Changes in demographic assumptions	(23.1)	-
Changes in financial assumptions	(8.8)	(339.1)
Other actuarial gains	41.7	33.4
At end of period	**806.5**	**805.2**

Changes in the fair value of plan assets are analysed as follows:

	2024 £'m	2023 £'m
At start of period	**823.1**	**1,161.6**
Interest income on scheme assets	41.7	34.3
Contributions by employers (including associated company)	106.4	29.6
Benefits paid	(46.8)	(55.7)
Scheme expenses	(1.4)	(1.5)
Loss on assets (excluding amounts included in finance costs)	(44.2)	(345.2)
At end of period	**878.8**	**823.1**

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 2024:

	£'m
0.25% reduction in in discount rate	831.6
0.25% increase in inflation	824.7
1 year increase in life expectancy	829.6

Maturity profile of the defined benefit obligation for the year ended 31 March 2023:

	Number of members	Liability split (%)	Duration (years)
Active members	-	0	-
Deferred members	1,764	41	19
Pensioners	3,220	59	9

WPS increases provisions
Court proceedings are likely to commence in 2024 in relation to certain rules of the WPS section of the Scheme and how it is determined whether, in a year where RPI exceeds 5%, the increases for members in the WPS section should be capped at 5% or paid in line with RPI (uncapped). The Company has been engaging with the Trustee as to the correct interpretation of the WPS increases provisions and it has been agreed between the Company and the Trustee that this point should be put to Court in Part 8 proceedings. Where the Scheme is in deficit on a technical provisions basis, as is the case now, the way in which the Rules should operate is not clear, and the Court will be asked to confirm this.

Guaranteed minimum pension (GMP) equalisation
A High Court ruling in October 2018 confirmed that pension scheme benefits should be equalised between men and women for inequalities caused by GMPs earned between 1990 and 1997. A supplementary ruling in November 2020 confirmed that Trustees should consider past transfer values paid to leavers and potentially pay top-ups to the receiving scheme if transfers did not reflect equalised benefits.

We understand that an allowance has previously been made for GMP equalisation, including an allowance for unequalised transfer values, and so no further cost is reflected in the income statement.

Virgin Media Limited v NTL Pension Trustees II Limited
We are aware of the ruling resulting from this case and the potential appeal. The NWPS, like many pension schemes in the UK, may be impacted by this as it did have benefits contracted out from the additional state pension between 1997 and 2016, but this is something that the Trustee rather than the Company would investigate. However, we understand that the majority of schemes have not carried out any analysis yet due to the uncertainty around the case and are waiting for more clarity. Given the regular discussions we hold with the Trustee, we are not aware that any analysis has yet been carried out for the Scheme.

It has been assumed for accounting purposes that this case will have no impact on the Scheme's liabilities.

15. 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 the largest 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.

Northumbrian Water Limited
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Pity Me
Durham
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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.